Report and Recommendations

SELECT COMMITTEE ON PUBLIC EDUCATION
Senate Concurrent Resolution 22

CONSTRUCTION, REHABILITATION AND REPAIR, AND CAPITAL DEBT FINANCING

WILLIAM P. HOBBY, CHAIRMAN
LIEUTENANT GOVERNOR OF TEXAS

BILL CLAYTON, VICE CHAIRMAN
SPEAKER OF THE HOUSE OF REPRESENTATIVES

JIMMY L. ELROD, CHAIRMAN
SUBCOMMITTEE ON CONSTRUCTION, REHABILITATION AND REPAIR, AND CAPITAL DEBT FINANCE

Submitted to the Sixty-Eighth Legislature
November 1982

Report and Recommendations

SELECT COMMITTEE ON PUBLIC EDUCATION
Senate Concurrent Resolution 22

Construction, Rehabilitation and Repair, And Capital Debt Financing

WILLIAM P. HOBBY, CHAIRMAN
LIEUTENANT GOVERNOR OF TEXAS

BILL CLAYTON, VICE CHAIRMAN
SPEAKER OF THE HOUSE OF REPRESENTATIVES

JIMMY L. ELROD, CHAIRMAN
SUBCOMMITTEE ON CONSTRUCTION, REHABILITATION AND REPAIR, AND CAPITAL DEBT FINANCE

Submitted to the Sixty-Eighth Legislature
November 1982

The State of Texas
Sixty-Seventh Legislature
First Called Session

SENATE CONCURRENT RESOLUTION 22

Establishing the Select Committee on Public Education to study and make recommendations of methods to provide quality public education.

WHEREAS, High quality education for the citizens of Texas is a vital public concern, and a major portion of the state's total budget is appropriated for education; and

WHEREAS, The education system will be undergoing important changes as a result of recent major policy decisions in such areas as curriculum reform, bilingual education, and requirements relating to teacher competency; and

WHEREAS, Additional decisions may need to be made, particularly concerning financial matters, following the outcome of current litigation and the proposed reduction in federal funds and considering the growth of the permanent school fund; and

WHEREAS, Local independent school districts need to reevaluate their current programs in light of the statewide assessment results, and many districts face continuing difficulty in financing capital expenditures; and

WHEREAS, The legislature indicated its continuing concern and need for additional information about education matters during the Regular Session of the 67th Legislature by authorizing interim studies of educational costs and of vocational education; and

WHEREAS, These important and widespread changes, along with continuing general property tax concerns, create a need for leadership and for a forum for cooperation and communication relating to public education in Texas; now, therefore, be it

RESOLVED by the Senate of the State of Texas, the House of Representatives concurring, that the 67th Legislature, 1st Called Session, hereby establish a special committee to study the issues and concerns relating to public education in Texas, including curriculum reform, bilingual education, requirements relating to teacher competency, and alternative methods of financing; and, be it further

RESOLVED, That the committee be composed of 18 members, including the lieutenant governor, chairman; the speaker of the house of representatives, vice-chairman; the chairman of the Senate Committee on Education; four other members of the senate, to be appointed by the lieutenant governor; the chairman of the House Committee on Public Education; four other members of the house, to be appointed by the speaker of the house; the chairman of the State Board of Education; two other members of the State Board of Education, to be appointed by the chairman of that board; the chairman of the Governor's Advisory Committee on Public Education; and two other members of the Governor's Advisory Committee on Public Education, to be appointed by the governor; the chairman shall appoint advisory committees, as necessary, and the committee shall hold meetings and public hearings at the call of the chairman; and, be it further

RESOLVED, That the Central Education Agency be authorized to provide an executive director and staff support for the committee to assist with the conduct of the study; and, be it further

RESOLVED, That the committee have the power to issue process to witnesses at any place in the State of Texas, to compel the attendance of such witnesses, and to compel the production of all books, records, documents, and instruments that the committee may require; if necessary to obtain compliance with subpoenas and other process, the committee shall have the power to issue writs of attachment; all process issued by the committee may be addressed to and served by any peace officer of the State of Texas or any of its political subdivisions; the chairman shall issue, in the name of the committee, such subpoenas and other process as the committee may direct; in the event that the chairman is absent, the vice-chairman or any designee of the chairman is authorized to issue subpoenas or any other process in the same manner as the chairman; witnesses attending proceedings of the committee under process shall be allowed the same mileage and per diem as are allowed

witnesses before any grand jury in the state. The testimony given at any hearing conducted pursuant to this resolution shall be given under oath subject to the penalties of perjury; and, be it further

RESOLVED, That the committee be authorized to request the assistance, where needed in the discharge of its duties, of all state agencies, departments, and offices, and that it be the duty of such agencies, departments, and offices to assist the committee when requested to do so; the committee shall have the power to inspect the records, documents, and files of every agency, department, and office of the state, to the extent necessary to the discharge of its duties within the area of its jurisdiction; and be it further

RESOLVED, That the operating expenses of the committee be paid from the Contingent Expense Fund of the Senate and the Contingent Expense Fund of the House, equally, and that the committee members be reimbursed from these funds for their actual expenses incurred in carrying out the provisions of this resolution; and, be it further

RESOLVED, That the committee make complete reports, including findings, recommendations, and drafts of any legislation deemed necessary, to the legislature as necessary and appropriate; copies of the reports shall be filed in the Legislative Reference Library, with the Texas Legislative Council, with the Secretary of the Senate, and with the Chief Clerk of the House.

ATTEST:

WILLIAM P. CLEMENTS, JR.
Governor of Texas

WILLIAM P. HOBBY
Lieutenant Governor of Texas

BILL CLAYTON
Speaker of the House of Representatives

BETTY KING
Secretary of the Senate

BETTY MURRAY
Chief Clerk of the House

Date Passed: August 10, 1981

Select Committee On Public Education

Chairman
The Honorable William P. Hobby
Lieutenant Governor of Texas
Houston, Texas

Vice Chairman
The Honorable Bill Clayton
Speaker of the House of Representatives
Spring Lake, Texas

The Honorable W.E. (Pete) Snelson
State Senate
Chairman, Senate Education Committee
Midland, Texas

The Honorable Ray Farabee
State Senate
Chairman, Senate Affairs Committee
Wichita Falls, Texas

The Honorable Grant Jones
State Senate
Chairman, Senate Finance Committee
Abilene, Texas

The Honorable Oscar Mauzy
State Senate
Chairman, Senate Jurisprudence Committee
Dallas, Texas

The Honorable Mike Richards
State Senate
Vice Chairman, Senate Subcommittee on Elections
Houston, Texas

The Honorable Hamp Atkinson
House of Representatives
Chairman, Public Education Committee
New Boston, Texas

The Honorable Bill Blanton
House of Representatives
Vice Chairman, House Public Education Committee
Carrollton, Texas

The Honorable Matt Garcia
House of Representatives
Vice Chairman, House Judiciary Committee
San Antonio, Texas

The Honorable Bill Haley
House of Representatives
Chairman, House Public Education Budget and Oversight Committee
Center, Texas

The Honorable Craig Washington
House of Representatives
Chairman, House Human Services Committee
Houston, Texas

The Honorable Joe Kelly Butler
Chairman, State Board of Education
Houston, Texas

The Honorable E.R. Gregg, Jr.
State Board of Education
Chairman, Committee on Rules, Budget and Finance
Jacksonville, Texas

The Honorable Jimmy L. Elrod
State Board of Education
Chairman, Committee on Investment of the Permanent School Fund
San Antonio, Texas

Dr. Willis M. Tate
Chairman, Governor's Education Action Group
Dallas, Texas

Dr. Calvin E. Gross
Governor's Education Action Group
San Antonio, Texas

Dr. Linus D. Wright
Governor's Education Action Group
Dallas, Texas

Executive Director
Mrs. Cis Myers
Deputy Commissioner of Education
Austin, Texas

Select Committee on Public Education

201 East 11th Street
Austin, Texas 78701
(512) 475-4536

December 20, 1982

To The Honorable Governor of Texas and Members of the 68th Legislature:

I am pleased to forward to you the Report and Recommendations of the Subcommittee on Construction, Rehabilitation and Repair, and Capital Debt Financing, which were reviewed and approved by the Edit and Review Subcommittee and the full Select Committee on October 16, 1982. The subcommittee, as part of the Select Committee on Public Education, established by Senate Concurrent Resolution 22, was charged with studying the financial implications involved in the construction and renovation of public school facilities.

The subcommittee, through its research, found that high interest rates and construction costs pose severe problems for many school districts in Texas, particularly those without rapidly expanding tax bases. The subcommittee studied alternative approaches to this problem, as well as examining the overall situation in school districts throughout the state. The subcommittee found that one of the most feasible methods for assisting school districts in the capital debt situation, given the local autonomy philosophy under which local governments operate, is by utilizing the Permanent School Fund to guarantee school bonds.

This program would require a constitutional amendment and implementing legislation, a draft of which is included as an appendix to this report. I believe that you will find the discussion of this alternative useful as you consider this issue during the 68th Session of the Legislature.

The subcommittee report introduces another recommendation which I believe is a timely and important one. Working with the Texas Energy and Natural Resources Advisory Council, the subcommittee found that local school districts would benefit from an energy information service, not only to protect the state's environment and natural resources, but also to save the school districts money in utility and maintenance costs. The Select Committee has concurred with the subcommittee's recommendation to work with TENRAC in providing such a service.

Respectfully submitted,

W P Hobby

William P. Hobby, Chairman
Select Committee on Public Education

Subcommittee on Construction, Rehabilitation and Repair And Capital Debt Financing

Subcommittee Members

The Honorable Jimmy Elrod, Chairman
State Board of Education

The Honorable Ray Farabee
Senate

The Honorable Hamp Atkinson
House of Representatives

Subcommittee Advisers

Mr. Eugene B. Shepherd, Chairman
Executive Vice President
Greer, Moreland, Fosdick, Shepherd, Inc.
Houston, Texas

Mr. Thomas M. Anderlitch
Vice President
Rauscher-Pierce Regnes, Inc.
San Antonio, Texas

Mr. Raul A. Besteiro, Jr.
Superintendent
Brownsville Independent
School District
Brownsville, Texas

Mr. Gordon Brown
Superintendent
Katy Independent School District
Katy, Texas

Mr. John Courville
Chief Executive Officer
Bayshore National Bank
La Porte, Texas

Mr. Jeff Hayes
President
Stone Gate Manor, Inc.
Port Arthur, Texas

Mr. James H. Kerley, Jr.
Executive Vice President
First Southwest Company
Dallas, Texas

Mr. William M. King
Attorney
Austin, Texas

Mr. Harvey Marmon
Attorney
San Antonio, Texas

Mr. James Milstead
Superintendent
Douglass Independent School District
Douglass, Texas

Mr. Clyde Parker
President
Guadalupe River Authority
Kerrville, Texas

Mr. Max Sherman
Amarillo, Texas

Mr. Alex Short, Jr.
Realtor
Texarkana, Texas

Mr. Jerry Windlinger
Tax Consultant
Exxon U.S.A.
Houston, Texas

Select Committee Staff

Cis Myers, Executive Director
Deputy Commissioner of Education

Joe Neely, Assistant Executive Director
Texas Education Agency

Ann Halstead, Editor
Texas Education Agency

Barbara LaHaye, Committee Secretary
Texas Education Agency

Gwen Newman, Administrative Assistant
Lieutenant Governor's Office

Melody Chatelle, Research Director
Office of the Speaker of the House

Jim Hooks, Deputy Commissioner for Investments
Texas Education Agency

T. R. Jones, Director of School Plant Services
Texas Education Agency

Brian Wilson, Director of Information Services
Texas Education Agency

Danny Burger, Executive Director
Municipal Advisory Council

Charles Harrison, Chief Fiscal Officer
State Property Tax Board

Steve Collins, Lawyer
Legislative Council

Susan Green, Secretary
Texas Education Agency

Olga Tenorio, ADP Equipment Operator
Texas Education Agency

Jorge Anchondo, Research Associate
Advisory Commission on Intergovernmental Relations

Select Committee on Public Education

201 East 11th Street
Austin, Texas 78701
(512) 475-4536

October 15, 1982

The Honorable William P. Hobby, Chairman
Edit and Review Subcommittee

The Honorable Joe Kelly Butler, Vice Chairman
Edit and Review Subcommittee

Dear Governor Hobby and Mr. Butler:

I am pleased to submit to you the Report and Recommendations of the Subcommittee on Construction, Rehabilitation and Repair, and Capital Debt Financing.

The subcommittee, responding to the charge of the Select Committee, examined the financial issues impacting the construction and renovation of school facilities. Those issues presenting the most concern for school district administrators include: the rapid increase in public school enrollment in Texas; the rising costs of materials, land and labor; the current high interest rates on municipal bonds; and the reluctance of the average taxpayer to assume additional tax burden.

The subcommittee believes that this report clearly illustrates the problems facing Texas school districts today in the area of construction and renovation, as well as indicating that there are viable solutions which may assist school districts without cost to the state.

This report represents the work of many groups and individuals who offered their time and expertise to the subcommittee. We would particularly like to acknowledge those school districts who so generously gave their attention to us during our case study visits.

The subcommittee will be happy to provide additional information regarding the report and recommendations if it is needed.

Respectfully submitted,

Jimmy L. Elrod

Jimmy L. Elrod, Chairman
Subcommittee on Construction, Rehabilitation and Repair, and
Capital Debt Financing

Table of Contents

Introduction

The post-World War II "baby boom" in the school-aged population created a sudden overcrowding of classrooms, gymnasiums and playgrounds. As a result, construction flourished in school districts across the nation in the late 50s and early 60s. At the same time, however, many school districts compensated for the increased school-aged population by continuing to use already worn-out facilities.

The rise in student population was accompanied in the late 1960s by significant developments in educational methodologies and philosophies. These developments brought about the need for changes in the physical environments of the classroom. Architects and engineers joined educators in taking a new interest in school facility design, and this interest continues to have a primary influence on the structural design of school facilities.

A National Educational Finance Project report in 1970 noted: "In recent years, early childhood education programs, increased laboratory science offerings, foreign language laboratory needs, education of the handicapped, compensatory education for the disadvantaged, and vocational technical and adult education have required more square feet per pupil, more special equipment and hardware, and more complex arrangement of facilities than was customary in former years." (See Table 1)

TABLE 1 **Incidence of special facilities, 1975-1980**

	Elementary schools			Middle schools			High schools			Vocational schools			Two year colleges			Four year colleges		
	1975	1979	1980	1975	1979	1980	1975	1979	1980	1975	1979	1980	1975	1979	1980	1975	1979	1980
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Open space pods	56.3	8.6	18.0	48.0	18.2	0	32.4	12.0	10.5	9.4	10.0	10.0	13.6	15.0	13.2	9.6	19.1	9.5
Science labs	17.6	10.3	14.0	86.2	59.1	75.0	93.2	54.0	73.7	9.4	10.0	30.0	27.3	20.0	24.5	25.5	10.6	12.4
Music rooms	62.3	44.8	58.0	84.6	59.1	65.0	92.6	54.0	73.7	4.7	0	10.0	12.2	15.0	9.4	10.2	12.8	10.5
Art rooms	46.7	36.2	48.0	81.3	68.2	65.0	85.8	54.0	81.1	10.9	10.0	30.0	14.4	30.0	11.3	10.8	10.6	9.5
Library/IMC	84.4	50.0	68.0	88.6	72.7	70.0	91.9	60.0	78.9	18.8	10.0	40.0	25.2	20.0	17.0	21.7	21.3	16.2
Vocat/occupational	2.5	8.6	2.0	39.8	40.9	45.0	64.2	52.0	31.6	100.0	100.0	100.0	29.5	40.0	34.0	8.4	4.3	3.8
Audit/theatre	14.6	10.3	16.0	26.8	22.7	15.0	58.8	40.0	31.6	1.6	10.0	0	17.3	15.0	18.9	33.1	19.1	19.0
TV studio	2.5	3.4	0	4.9	4.5	5.0	23.0	16.0	10.5	9.4	0	10.0	10.1	30.0	18.9	13.3	2.1	8.6
Computer centers	0.7	3.4	0	0.8	4.5	10.0	10.8	16.0	7.9	9.4	0	20.0	10.8	20.0	7.5	9.0	12.8	15.2
Cafeterias	70.4	46.6	66.0	76.4	59.1	70.0	83.1	48.0	21.1	14.1	20.0	10.0	14.4	10.0	9.4	11.4	4.3	6.7
Kitchens	75.4	53.4	64.0	86.2	54.5	80.0	83.1	44.0	21.1	23.4	40.0	30.0	16.5	20.0	17.0	18.1	14.9	14.3
Special education	64.8	50.0	66.0	65.9	63.6	65.0	65.5	52.0	23.7	15.6	10.0	30.0	**	**	**	**	**	**
Administrative	82.9	71.7	66.0	83.7	68.2	65.0	89.9	60.0	57.9	23.6	70.0	50.0	39.6	70.0	60.4	47.6	63.8	62.9
Residential halls	**	**	**	**	**	**	**	**	**	**	**	**	0.7	10.0	3.8	6.6	12.8	8.6
Student unions	**	**	**	**	**	**	**	**	**	**	**	**	12.2	25.0	3.8	10.2	8.5	1.9
Swimming pools	2.0	0	1.5	10.6	9.1	10.0	18.2	10.0	2.7	0	10.0	0	5.8	0	9.4	7.2	10.6	9.5
Outdoor athletics	21.1	17.2	26.0	49.6	36.4	60.0	56.8	38.0	15.8	0	0	0	5.0	5.0	3.8	1.8	4.3	6.7
Tennis courts	3.5	1.7	2.0	28.5	27.3	15.0	45.9	22.0	7.9	1.6	0	0	7.2	5.0	5.7	5.4	10.6	6.7
Elevators	12.6	5.2	12.0	12.2	13.6	30.0	38.5	32.0	7.9	9.4	10.0	10.0	30.9	40.0	35.8	44.6	48.9	41.0
Bleachers	9.5	8.6	8.0	47.2	31.8	50.0	73.0	50.0	26.3	0	0	0	9.4	5.0	9.4	6.6	12.8	10.5
Gymnasiums	47.7	43.1	38.0	74.8	59.1	55.0	89.9	58.0	47.7	0	0	0	12.2	10.0	13.2	10.8	14.9	11.4
Medical suites	26.1	24.1	40.0	32.5	27.3	40.0	41.2	26.0	7.9	7.8	20.0	0	5.8	0	5.7	7.2	8.5	6.7
Chapels	**	**	**	**	**	**	**	**	**	**	**	**	1.4	0	1.9	3.6	0	0.9
P/A systems	*	51.7	70.0	*	81.8	65.0	*	62.0	44.7	*	50.0	40.0	*	25.0	24.5	*	36.2	26.7
Playgrounds	*	4.8	68.0	*	27.3	45.0	*	28.0	2.6	*	10.0	0	*	**	**	*	**	**
Parking lots	*	46.6	68.0	*	63.6	65.0	*	56.0	34.2	*	80.0	40.0	*	50.0	34.0	*	46.8	39.0
Parking garages	*	0	2.0	*	4.5	0	*	2.0	2.6	*	10.0	0	*	10.0	1.9	*	8.5	1.0

*Not available **Information not sought from these institutions.

This emphasis on recognizing and fostering the individual within each student has meant that school facilities in general must encompass a greater number of functions. Flexibility becomes a key concept as smaller and more personalized classrooms, "private" space for teacher-student conferences, and accessibility to educational tools become prerequisites in the modern school.

The need to give students as much self-confidence and competence as possible adds to the need for more equipment and different spatial arrangements in the classrooms. Tools for bilingual and vocational education; easy access for handicapped students to educational facilities and equipment; laboratories equipped to handle the increasing emphasis on the sciences; resource centers combining libraries, art galleries, and other areas promoting cultural and social awareness—all of these make it obvious that facilities can no longer be built from the blueprints used in the 1940s and 50s.

Population Trends

While the shape of school buildings is changing, so, too, is the demand for facilities. Renovation and construction continued into the early 1970s, when the birthrate began to decline. In the mid-70s, schools in many states began to experience declining enrollments, resulting in empty classrooms and idle facilities. Apparently this national trend will continue. While some Texas school districts are following the trend toward declining enrollments, the state as a whole is attracting many people to its relatively prosperous economy. As a result, many school districts are faced with rapidly increasing enrollments and a need for new or renovated school facilities.

The Texas 2000 Project and its Steering Committee were established by Executive Order WPC-16, April 4, 1980. The objectives were: to identify and project changes in Texas' population, natural resources, economy and service infrastructure over the next 20 years; to develop and analyze alternative state policy response; and to propose solutions to long-range problems. The Steering Committee was chaired by the Governor and consisted of the Lieutenant Governor, the Speaker of the House, and other members selected by the Governor.

The project was expanded by Executive Order WPC-22, April 10, 1981, which created the Texas 2000 Commission designed to address specific "critical issues relating to the continued economic growth and development of the State of Texas."[1] The Commission studied nine areas, two of which—population growth and state and local finance—are significant to a study of the outlook for Texas school districts.

TABLE 2

ACTUAL AND PROJECTED TEXAS POPULATION
BY AGE GROUP

	Population				Percent Distribution			
Age	1970[1]	1980[2]	1990[3]	2000[3]	1970	1980	1990	2000
0 - 9	2,145,759	2,347,683	3,021,000	3,482,000	19.1%	16.5%	17.1%	15.8%
10 - 19	2,275,461	2,447,281	2,615,000	3,445,000	20.3	17.2	14.8	15.6
20 - 34	2,360,603	3,784,750	4,402,000	4,655,000	21.1	26.6	24.9	21.0
35 - 49	1,908,551	2,248,085	3,559,000	5,056,000	17.1	15.8	20.0	22.9
50 - 64	1,509,297	1,678,949	2,095,000	2,951,000	13.5	13.3	11.8	13.4
65+	992,059	1,607,807	2,011,000	2,501,000	8.0	10.6	11.4	11.3

1. Actual.
2. Estimated from 1980 Total Census Count for Texas.
3. Projected.

Source: Texas 2000 Commission

Projections by the Texas 2000 Commission show that the school-aged population, in keeping with the general population, will continue to increase at least until the year 2000. An overall increase in the school-aged population between 1980 and 1990 will total approximately 517,000 according to Texas 2000 figures; between 1990 and 2000 the increase is expected to be over one million, bringing the total 20-year increase to 1.6 million.

The Texas Education Agency, in preparing figures for the upcoming biennium, has estimated that Texas will have nearly 3.3 million public school pupils by the 1984-85 school year—an increase of nearly 200,000 from 1982-83 ADA estimates of 3.1 million. While these figures may vary slightly from the Texas 2000 projections, there is a clear indication that the number of pupils in Texas will continue to increase. Districts must find the means to finance the construction of additional facilities capable of handling this expected increase.

[1]The Past and Future: a survey. Prepared for the Texas 2000 Commission, Economic Development Issues, p. iv.

Construction Needs

A study of classroom construction and subsequent costs, conducted by the Texas Education Agency from 1956 through 1978 as part of a Federal Aid program to local districts, indicates the average-sized classroom accommodates 24 students. Based on this data, Texas 2000's projection of an additional 1.6 million students will require approximately 67,000 additional classrooms.

Location of the new facilities is another area of speculation. It appears people from other states are attracted to Texas primarily because of the availability of jobs in the growing urban areas. It can be assumed, therefore, that the trend toward urbanization will continue in Texas. As a result, the majority of educational facility construction will most likely occur in the urban centers. However, construction and renovation needs of the smaller, rural districts must also be considered in addressing statewide needs.

Estimating the actual replacement or renovation needs of the districts poses a problem. There is little documentation regarding the condition and number of school facilities in Texas. The Texas Education Agency monitors accreditation guidelines ensuring that districts are maintaining a "fundamentally sound educational program"[2] and that certain standards of health and safety are observed. At present, however, there is no definitive system for keeping track of the number or capacity of facilities in each district and what the expected life span of those facilities might be.

In July 1982, the Select Committee conducted a statewide survey that attempted to ascertain the capital construction needs of school districts. Some highlights of the survey were:

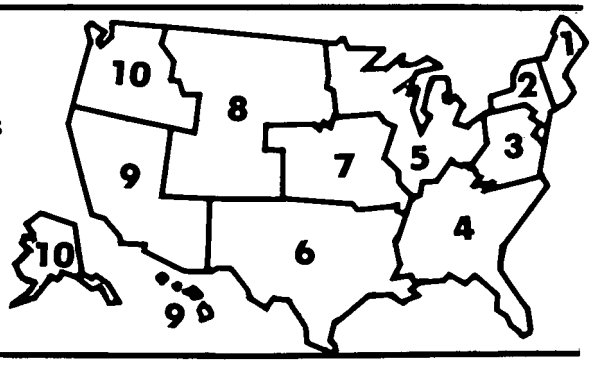
- While most districts said that their buildings were in "good" condition, only the wealthier districts said the condition was "excellent."
- Nearly a quarter of those districts surveyed are not undergoing construction or renovation; 80 percent of those that are will initiate the construction in one to three years.
- A large percentage of districts use portable buildings, the most prevalent reason stated was "lack of funds."
- Over half the districts that will be undergoing construction or renovation will use bonds to finance the projects.

While data obtained from the survey did offer a good idea of conditions in a fairly representative cross-section of the state, it is still difficult to make accurate projections for school construction.

A study done by the American School and University magazine (April 1981) showed the Southwest Region, comprised of Arkansas, Oklahoma, Louisiana, New Mexico and Texas, led the nation in school construction with $926 million in new school facilities and renovation completed in 1980, and $2.2 billion estimated for completion by 1983. (See Tables 3 and 4)

TABLE 3

Region 1 ME NH VT MA RI CT
Region 2 NY NJ
Region 3 PA DE MD DC VA WV
Region 4 NC SC GA FL KY TN AL MS
Region 5 OH IN IL MI WI MN
Region 6 AR LA OK TX NM
Region 7 IA MO NB KS
Region 8 ND SD MT WY CO UT
Region 9 NV CA AZ HI
Region 10 OR WA AL ID



[2]Principles, Standards and Procedures for the Accreditation of School Districts (p. 1)

TABLE 4

Where is the money being spent? The sunbelt regions lead, with the Northwest catching up.

Construction completed, 1980

(000's—based on projected survey returns)

	School Districts	Two year Colleges	Four year Colleges	Total Education
NATIONAL				
New buildings	$2,781,892	$1,335,391	$1,861,751	$5,979,034
Adds/mod	1,875,365	428,048	609,051	2,912,464
Total	$4,657,257	$1,763,439	$2,470,802	$8,891,498
REGION 1				
New buildings	$ 90,137	$ 13,750	$ 60,817	$ 164,704
Adds/mod	237,729	2,267	68,679	308,675
Total	$ 327,866	$ 16,017	$ 129,496	$ 473,379
REGION 2				
New buildings	$ 93,699	$ 40,700	$ 236,852	$ 371,251
Adds/mod	318,716	34,709	40,904	394,329
Total	$ 412,415	$ 75,409	$ 277,756	$ 765,580
REGION 3				
New buildings	$ 204,652	$ 16,652	$ 206,356	$ 427,660
Adds/mod	304,656	11,194	116,115	432,015
Total	$ 509,308	$ 27,846	$ 322,471	$ 859,675
REGION 4				
New buildings	$ 335,047	$ 236,554	$ 280,851	$ 852,452
Adds/mod	202,356	56,686	78,676	337,718
Total	$ 537,403	$ 293,240	$ 359,527	$1,190,170
REGION 5				
New buildings	$ 309,170	$ 210,417	$ 338,365	$ 857,952
Adds/mod	170,201	64,173	94,906	329,280
Total	$ 479,371	$ 274,590	$ 433,071	$1,187,232
REGION 6				
New buildings	$ 605,686	$ 184,203	$ 165,561	$ 955,450
Adds/mod	320,167	31,615	55,081	406,863
Total	$ 925,853	$ 215,818	$ 220,642	$1,362,313
REGION 7				
New buildings	$ 127,521	$ 205,066	$ 171,581	$ 504,168
Adds/mod	52,132	31,054	57,414	140,600
Total	$ 179,653	$ 236,120	$ 228,995	$ 644,768
REGION 8				
New buildings	$ 300,002	$ 28,507	$ 116,938	$ 445,447
Adds/mod	136,123	1,301	25,248	162,672
Total	$ 436,125	$ 29,808	$ 142,186	$ 608,119
REGION 9				
New buildings	$ 433,764	$ 178,076	$ 249,553	$ 861,393
Adds/mod	78,877	121,417	43,273	243,567
Total	$ 512,641	$ 299,493	$ 292,826	$1,104,960
REGION 10				
New buildings	$ 282,214	$ 221,466	$ 34,877	$ 538,557
Adds/mod	54,408	73,632	28,755	156,795
Total	$ 336,622	$ 295,098	$ 63,632	$ 695,352

Construction to be completed, 1981-83

(000's—based on projected survey returns)

	School Districts	Two year Colleges	Four year Colleges	Total Education
NATIONAL				
New buildings	$ 6,695,143	$2,387,035	$4,060,619	$13,142,797
Adds/mod	3,329,605	615,093	1,968,577	5,913,275
Total	$10,024,748	$3,002,128	$6,029,196	$19,056,072
REGION 1				
New buildings	$ 103,771	$ 218,494	$ 316,186	$ 638,451
Adds/mod	268,477	7,451	112,690	388,618
Total	$ 372,248	$ 225,945	$ 428,876	$ 1,027,069
REGION 2				
New buildings	$ 119,105	$ 258,844	$ 484,951	$ 862,900
Adds/mod	348,475	22,074	543,457	914,006
Total	$ 467,580	$ 280,918	$1,028,408	$ 1,776,906
REGION 3				
New buildings	$ 583,867	$ 57,985	$ 356,445	$ 1,998,297
Adds/mod	421,319	26,619	179,392	627,330
Total	$ 1,005,186	$ 84,604	$ 535,837	$ 1,625,627
REGION 4				
New buildings	$ 1,251,644	$ 494,045	$ 576,418	$ 2,322,107
Adds/mod	395,610	133,871	248,394	777,875
Total	$ 1,647,254	$ 627,916	$ 824,812	$ 3,099,982
REGION 5				
New buildings	$ 745,998	$ 313,779	$ 507,853	$ 1,567,630
Adds/mod	397,526	96,963	242,077	736,566
Total	$ 1,143,524	$ 410,742	$ 749,930	$ 2,304,196
REGION 6				
New buildings	$ 1,513,946	$ 305,805	$ 470,901	$ 2,290,652
Adds/mod	679,975	36,412	158,140	874,527
Total	$ 2,193,921	$ 342,217	$ 629,041	$ 3,165,179
REGION 7				
New buildings	$ 216,357	$ 139,561	$ 283,461	$ 639,379
Adds/mod	92,585	29,736	194,348	316,669
Total	$ 308,942	$ 169,297	$ 477,809	$ 956,048
REGION 8				
New buildings	$ 548,934	$ 91,057	$ 271,849	$ 911,840
Adds/mod	222,031	2,235	77,506	301,772
Total	$ 770,965	$ 93,292	$ 349,355	$ 1,213,612
REGION 9				
New buildings	$ 958,236	$ 423,810	$ 619,530	$ 2,001,576
Adds/mod	176,450	171,950	173,463	521,863
Total	$ 1,034,686	$ 595,760	$ 792,993	$ 2,523,439
REGION 10				
New buildings	$ 653,285	$ 83,655	$ 173,025	$ 909,965
Adds/mod	327,157	87,782	39,110	454,049
Total	$ 980,244	$ 161,437	$ 212,135	$ 1,364,014

In addition to renovation and repair, school districts throughout the state are becoming increasingly aware of the very real problem of energy conservation. Since the early 1970's—during and after the oil embargo—America and the world in general have been faced with dwindling supplies of natural gas, oil and other fossil fuels, coupled with an ever-increasing rate of consumption of these energy sources.

According to the Texas Energy and Natural Resources Advisory Council (TENRAC) the demand/supply gap will continue to widen dramatically over the next 10 to 20 years. In the United States, average daily consumption in 1980 was approximately 46 million barrels per day, while U.S. production was only 30 million barrels per day.[3] These statistics are evident in most areas of the world, and predictions for the future discovery of sufficient energy sources are dim—by 1990 the gap between supply and demand is estimated to equal 23 million barrels per day in the United States.

Clearly the need for long-term energy conservation programs is urgent. Sharply rising utility costs have prompted many school districts either to modify existing buildings or to adhere to energy efficient standards when constructing new buildings. The Select Committee survey indicated that many districts—nearly 85 percent, in fact—are very concerned with the energy problem. Many have already implemented energy conservation measures such as timing systems, which control all the buildings in the district to avoid higher peak load charges on electricity consumption, and energy audits to ensure that both money and energy are being saved wherever possible.

New sources of energy, such as solar, wind powered generators, etc., are being examined as viable alternatives to conventional sources. Some of these new sources are being used on an experimental basis in a limited number of districts in Texas. The Texas Energy and Natural Resources Advisory Council offers informational services on energy and conservation, including energy management plans for school administrators, training programs for maintenance personnel, and energy conservation conferences. Unfortunately, the advisory council is grossly underused by the school districts in the state.

The current boom in school construction in Texas and the projected figures for school-aged populations in the next 20 years present an optimistic outlook for the school construction industry in Texas. It must be noted, however, that there are several factors which play an important role in the ability of a district to carry out needed and/or desirable construction.

[3]Texas Energy Conservation Program—Schools, A Workshop

The Financial Picture

The ASU survey noted a slight reluctance on the part of school districts nationwide to undertake as much construction and renovation as had been estimated a few years ago. This reluctance was attributed in part to the relative unfriendliness of the bond market (i.e., rising interest rates) and an uncertain overall economic picture, particularly in light of the federal cutbacks which are already affecting the financial situation in education.

In general, the capital debt position of Texas public schools appears to be favorable. The following is an excerpt from Special Report No. 140, Special Debt in Texas, compiled and published by the Municipal Advisory Council of Texas:

> From MAC Special Report No. 139, the aggregate of preliminary 1980 assessed valuations, net of exemptions, from 1,045 reporting school districts amounted to $256.9 billion. School district tax debt of $3.7 billion thus represented a modest gross debt ratio of 1.44% to 1980 assessed valuation, while all tax supported debt in Texas of $8.9 billion produced a gross debt ratio of 3.46% to 1980 aggregate assessed valuation of Texas school districts.
>
> The 1980 debt ratios for school districts, and for that matter cities, are down sharply from 1970, which is attributable to property tax revisions in Texas during the latter years of the 1970s. While school district tax debt nearly doubled from 1970 to 1980, from $1 billion, to $3.7 billion, aggregate assessed valuations of school districts during the same period jumped from $41 billion to $256 billion, with the latter figure being incomplete due to some nonreporting schools. It is obvious that Texas experienced substantial growth in the last decade; however, by the 1980 tax year, many school districts had adopted full assessment practices based on market values, including current programs of re-evaluation, in advance of such practice which became mandatory on January 1, 1981, pursuant to Section 26.02 of the Property Tax Code.

The Texas Advisory Commission on Intergovernmental Relations recently completed a study on "Long-Term Local Government Debt in Texas." School district debt was not a primary thrust of the investigation; however, one section of the final report examines the debt position of 1,075 public school districts in Texas.

For the analysis, the school districts are divided into seven categories based on the market value of property per average daily attendance (ADA). The higher the market value of property per average daily attendance (ADA), the "wealthier" the school district. The seven categories and the number of school districts in each are as follows:

1980 Market Value/ADA	Number of School Districts
Under $70,000	406
$ 70,000-$114,999	295
$115,000-$149,999	104
$150,000-$199,999	84
$200,000-$299,999	65
$300,000-$499,999	56
$500,000 and Above	65
	1,075

Analysis of the Debt Position of School Districts

Debt Levels

The median amount of general obligation debt outstanding was $601,680 for all Texas school districts combined, ranging from $29,000 in the wealthiest school districts to $997,000 in the poorest school districts in the ACIR study. Debt outstanding in the poorest districts was twice as large as in the next category of school districts. It is important to note that debt is incurred in Texas only after the approval of the voters. General obligation levels fell in all seven categories between FY 1976 and FY 1980. The percent change was directly related to the wealth of the school districts, ranging from -9 percent to -38 percent. Table X-1 lists values for these and other debt level indicators.

Table X-1

MEDIAN VALUES OF DEBT LEVEL INDICATORS FOR TEXAS SCHOOL DISTRICTS BY MARKET VALUE/ADA, FY 1980 AND PERCENT CHANGE FY 1976-FY 1980

	1980 Market Value/ADA						
	Under $70,000	$70,000–$114,999	$115,000–$149,999	$150,000–$199,999	$200,000–$299,999	$300,000–$499,999	$500,000 and Above
General Obligation (GO) Debt Outstanding	$997,000	$487,000	$392,000	$364,806	$209,000	$205,000	$29,000
Percent Change	-9.41%	-16.24%	-20.04%	-19.17%	-22.77%	-28.82%	-37.93%
GO Debt Outstanding Per ADA	$837.91	$914.04	$887.47	$857.56	$697.89	$435.73	$248.89
Percent Change	-9.36%	-16.00%	-16.63%	-16.38%	-16.24%	-32.82%	-29.18%
GO Debt Outstanding to Market Value of Property	1.84%	1.00%	0.68%	0.51%	0.28%	0.12%	0.02%
Percent Change	-20.00%	-36.60%	-45.35%	-38.46%	-50.00%	-60.46%	-52.11%

SOURCE: Texas ACIR staff calculations.

General obligation debt outstanding per ADA declined between FY 1976 and FY 1980 in all categories of market value per ADA. The two wealthiest groups of school districts witnessed roughly 30 percent drops in general obligation debt per student, while the poorest school districts registered a decrease of 9 percent. General obligation debt per ADA in the majority of the school districts fell by approximately 16 percent.

Except for the category with the poorest school districts, the amount of general obligation debt per ADA was inversely related to the wealth of the school district. The category with the second poorest school districts showed $914 per student in general obligation debt outstanding, compared to $249 for the category with the wealthiest districts.

Section 20.04(c) of the Texas Education Code limits the amount of school district debt to 10 percent of the assessed value of taxable property in the district. The median values for all seven categories show that all school

districts were well below the legal limit. The ratio of general obligation debt outstanding to market value was inversely related to the wealth of the school district, ranging from 1.84 percent in the poorest districts to 0.02 percent in the wealthiest. The school districts registered a declining trend in this ratio over the five-year period examined.

Debt Service

The percentage of the local budget dedicated to the payment of debt service requirements was inversely related to the wealth of the school district. The median values for the ratio of general obligation debt service to total revenues from local source ranged from 21 percent to 0.6 percent.

The highest ratio exhibited by an individual school district was 87 percent. All of the categories demonstrated a declining trend in the ratio of general obligation debt service to total revenues from local source. This decline occurred even though debt service tax revenues increased because school districts' total revenues from local source grew at a faster rate. Table X-2 presents information on general obligation debt service to total revenues from local source and interest payment on general obligation debt to total revenues from local source.

Revenue Sources

Tax revenues used to meet debt service requirement ranged from $77 to $123 per ADA. The middle wealth school districts ($150,000-$199,999) had the highest tax levels, while the wealthiest and poorest districts had the lowest levels. All of the categories of school districts, except one, exhibited increases in the level of debt service tax revenues per ADA between FY 1976 and FY 1980. Information on general obligation debt service tax revenues per ADA is in Table X-3.

Table X-2

MEDIAN VALUES OF DEBT SERVICE INDICATORS FOR TEXAS SCHOOL DISTRICTS BY MARKET VALUE/ADA, FY 1980 AND PERCENT CHANGE FY 1976-FY 1980

	1980 Market Value/ADA						
	Under $70,000	$70,000-$114,999	$115,000-$149,999	$150,000-$199,999	$200,000-$299,999	$300,000-$499,999	$500,000 and Above
General Obligation Debt Service to Total Revenues-Own Source	20.51%	12.40%	8.52%	7.78%	3.89%	1.84%	0.60%
Percent Change	-23.45%	-33.53%	-43.39%	-36.97%	-48.63%	-57.98%	-38.48%
Interest Payment to Total Revenues-Own Source	10.81%	5.88%	4.03%	3.64%	1.86%	0.73%	0.18%
Percent Change	-23.74%	-33.54%	-43.24%	-36.79%	-50.26%	-57.14%	-52.14%

SOURCE: Texas ACIR staff calculations.

Table X-3

MEDIAN VALUES OF REVENUE SOURCE INDICATORS FOR TEXAS SCHOOL DISTRICTS BY MARKET VALUE/ADA, FY 1980 AND PERCENT CHANGE FY 1976-FY 1980

	1980 Market Value/ADA						
	Under $70,000	$70,000-$114,999	$115,000-$149,999	$150,000-$199,999	$200,000-$299,999	$300,000-$499,999	$500,000 and Above
General Obligation Debt Service Tax Revenues Per ADA	$82.75	$100.07	$106.81	$122.74	$96.34	$89.49	$76.51
Percent Change	11.89%	12.34%	5.76%	14.48%	7.00%	-2.32%	19.31%
Adjusted Tax Rate for Debt Service	$ 0.18	$ 0.12	$ 0.08	$ 0.075	$ 0.04	$ 0.02	$ 0.00
Percent Change	-8.22%	-20.00%	-20.00%	-13.33%	-25.83%	-40.00%	-33.33%
Percent Change in Market Value of Property	30.78%	38.72%	39.41%	48.84%	44.10%	42.44%	44.40%

SOURCE: Texas ACIR staff calculations.

As debt levels have declined, so has the tax rate for debt service. One of the wealthier categories of districts dropped the sharpest, 40 percent. The poorest school districts showed the smallest decline in tax rates—8 percent. The median tax rates for debt service ranged from $0.18 per $100 of property value in the poorest school districts to no tax in some of the wealthiest school districts. Table X-3 contains information on debt service tax rates as well as data showing that property values have escalated in all seven categories.

Based on the ACIR study, the debt position of Texas public schools appeared healthy in 1980. Further, Texas has been relatively fortunate in the fact that a good percentage of school bond issues pass. During the four-year period 1978 through 1981, 68.4 percent of the issues passed, while during the same time period nationwide, 57.2 percent of all elections carried. This historical success cannot be construed, however, as a declaration that all Texas school districts are able to handle debt without assistance.

Disparities in taxable wealth between districts do exist and create tremendous tax burdens for the patrons of the poorer districts for financing construction of basic facilities, let alone the "extras" which are rapidly becoming "necessities." The absence of adequate funding often forces these districts to opt for less efficient facilities. Many of these districts are in need of facility construction/renovation but are unable to finance it. An example of this particular problem can be found in the Brownsville Independent School District case study on page 29 of this report.

Among the problems in financing capital projects is the current high interest rate that must be paid over the life of the school bonds sold to pay the cost of the facilities. While interest rates have risen in recent years, the trend has improved. (See Table 5X) This improvement is an important consideration for any school district board contemplating a bond sale. With high interest rates, it is often better to opt for shorter lengths of maturity; while this practice lowers the overall cost, the taxpayers face a greater burden, albeit over a shorter number of years.

Coupled with the bond situation are the general costs of construction and renovation. Factors influencing new building costs include: student enrollment, age of the building, heating and cooling methods, types of educational programs offered, maintenance practices, vandalism, land costs, building materials, and labor. A

brief sampling of current construction projects indicates the overall cost for a typical elementary school is now in excess of $50 per square foot, including site acquisition.

Investment advisers are currently suggesting that school administrators multiply $6,000 times the anticipated enrollment in order to project new building costs for the future. Utilizing this formula, Texas public schools can be expected to need an additional $9½ to $10 billion within the next 20 years for construction if the Texas 2000 estimates for student growth prove to be accurate.

Table 5

MUNICIPAL BOND INTEREST RATES - NATIONAL AVERAGES
(GENERAL OBLIGATIONS ONLY)
1970-1981

	Bond Rating		
Year	Aaa	Baa	Bond Buyer Series*
1970	6.12%	6.75%	6.36%
1971	5.22%	5.89%	5.48%
1972	5.04%	5.60%	5.26%
1973	4.99%	5.49%	5.19%
1974	5.89%	6.53%	6.18%
1975	6.42%	7.62%	7.10%
1976	5.66%	7.49%	6.64%
1977	5.20%	6.12%	5.68%
1978	5.52%	6.27%	6.03%
1979	5.92%	6.73%	6.52%
1980	7.85%	9.01%	8.59%
1981**	11.10%	13.50%	12.97%

Source: Texas ACIR staff compilations from data obtained from Federal Reserve Bulletins, 1970-1981.

* Average of 20-year bonds issued by 20 state and local government units of mixed quality. Bond Buyer Series for period ending August, 1982 was down to 10.58%.

** Week ending August 28, 1981.

Replacing and renovating older buildings, constructing new facilities to house the growing number of school-aged children in Texas, equipping schools with the learning tools necessary for modern society, and above all coping with the financial burden all of this places on the school districts are the problems with which Texas educators are now faced. Both the need and desire for continued construction and renovation exist, but the relative ease of financing such projects in the 1950s and 1960s has been arrested by current national economic problems. The Tax Equity and Fiscal Responsibility Act of 1982 (H.R. 4961) approved by the U.S. Senate Finance Committee on July 2, 1982, to address national economic concerns may have an adverse effect on the marketability of school bonds. The provisions of this legislation state that corporations will only be allowed to deduct 85 percent of interest on debt used to purchase or carry municipal securities acquired after 1982. The provision will predominantly affect banks and financial institutions currently not subject to the statutory prohibition regarding deducting interest to purchase or carry municipals. The full effects of this legislation are as yet undetermined. Financial experts agree, however, that probable effects will be to increase interest rates on bonds and/or decrease interest paid to bank customers. Whatever the repercussions, such inroads into the municipal securities market will create additional difficulties for the school bond market.

The State's Role

The Texas Constitution, Article VII, Section I, states: ". . . it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of free public schools." However, the State's legal responsibility for ensuring the minimum standards of education for its children has never been expanded to include legislation directly granting any form of state aid for capital outlay construction or the retirement of bonded indebtedness. In accordance with the concept of local control, the financial burden for capital outlay has rested solely upon the shoulders of the local taxpayers.

Several important court cases regarding the equalization of opportunities in the public schools came to the fore in the late 60s and 70s. One of the most prominent was *San Antonio vs. Rodriguez.* This case charged that the quality of a child's education could not be contingent upon the taxable wealth of the local school district. While the U.S. Supreme Court eventually ruled that Texas school finance laws were not discriminatory against any suspect class nor interfered with the exercise of a fundamental right, the problem was brought out in the open, paving the way for statewide attention and possible reforming legislation.

In defense of the state, it must be noted that Texas provides the freest atmosphere of any state for construction of new school facilities from local funds. Local control of tax rates for debt service and a lack of stringent limits on the term of bonds makes Texas one of the most favorable states in which to issue school bonds.

Texas bonds, on the average, are sold at a lower interest rate than the average national index. (See Table 6) This too, is directly and/or indirectly due to state financial policy. Reasons for the added marketability of school bonds sold in Texas, according to the Municipal Advisory Council, include:

(a) unlimited tax bonds

(b) the requirement that any public deposit must be collateralized with U.S. government or Texas municipal securities

(c) good general economy

(d) conservative fund management

(e) budgeted fiscal practices

(f) a high level of state funding

(g) the strength and size of the Permanent School Fund

(h) activities of the Municipal Advisory Council (their emphasis on maintaining current financial reports on an annual basis creates an excellent climate for Texas school bonds)

(i) a sophisticated Texas bond market

Current Methods of Financing

There are four methods by which Texas school districts finance capital debt: the sale of school bonds, which is far and away the most prevalent method, the "pay-as-you-go" method, time warrants, and the short- or long-term leasing of facilities. Which method a district chooses depends upon its general financial status and degree of need for construction or renovation.

Table 6

SAMPLE COMPARISON OF US AND TEXAS INTEREST RATE AVERAGES ON 20-YEAR GENERAL OBLIGATION BONDS DURING 1981

	Interest Rate	US Average Interest Rate Aaa	US Average Interest Rate Baa
Austin (Aaa)	9.41%	10.00%	—
Bandera County (Baal)	9.62%	—	10.20%
Dallas (Aaa)	9.53%	9.75%	—
Dallas County (Aaa)	8.66%	9.30%	—
(Aaa)	8.72%	9.30%	—
Harris County (Aaa)	9.37%	9.80%	—
Houston (Aaa)	9.50%	9.95%	—
Lancaster (Baal)	11.18%	—	11.40%
Leon Valley (Baal)	9.88%	—	10.40
Round Rock (Baal)	8.98%	—	9.90%
Rowlett (Baal)	11.45%	—	11.40%

SOURCE: Texas ACIR staff compilations from various issues of the *Federal Reserve Bulletin* and the *Texas Bond Reporter,* 1981.

The "pay-as-you-go" method uses current revenues, enabling districts that can collect and maintain surplus funds to finance construction with cash and thus avoid the finance charges associated with borrowing money. Few districts are able to accumulate the cash reserves necessary for this type of financing. A time warrant is a promissory note which operates much in the same manner as a personal loan to an individual, except that there are certain additional stipulations concerning the amount of the time warrant and its length of maturity.

A third method of capital debt financing is through the short- or long-term leasing of facilities. This is generally a temporary measure, often used by school districts to house students while construction of permanent facilities is being completed. Section 20.84(c) of the Texas Education Code gives school districts the authority to use local school funds for renting school buildings. According to the July survey, less than 5 percent of Texas school districts lease facilities for educational purposes, and those doing so are generally the larger districts in the state.

The most prevalent method of financing capital debt is through the sale of school bonds. A school bond is basically a contract to repay borrowed money on a given date and to pay interest at a given rate.[4] A school board, upon approval from the voters in the district, sells an issue of school bonds, generally in denominations of $5,000, which are payable in annual installments over a period of years—the mark of a "serial" bond. The length of maturity varies, generally running from 10 to 25 years.

At the time of issuance, bonds are sold to a municipal underwriting syndicate which retails them to investors. Municipal bonds are tax exempt, and as such are desirable to investors—institutional as well as individual—in

[4]What Every School Board Member Should Know About School Bonds.

high tax brackets. Banks, which are a primary market for school bonds, are generally more conservative with their investments. It remains to be seen, however, what effect the passage of the Tax Equity and Fiscal Responsibility Act will have on this market.

The primary factor determining the interest rate that a school district's bonds sell for is its credit-worthiness. One factor that determines the credit-worthiness is the credit rating. Applications for credit ratings are prepared by financial consultants in coordination with district officials and submitted to one or both of the national rating organizations: Moody's Investors Service and Standard and Poor's Corporation. Most, but not all, bonds carry a rating by one or both of these rating agencies. In addition to paying a fee, districts often send representatives to New York with all pertinent information needed to establish or review the rating the district will receive.

These firms study and evaluate the relative investment quality of bonds, taking into account factors such as: present outstanding debt of the district, its general economic level and social conditions, and the cost of its current operations.[5] The agencies then designate an alphabetical symbol indicating the relative strength of security. Moody's rates bonds of highest quality "Aaa" and gives those of speculative quality "Ba" rating; Standard and Poor's uses "AAA" and "BB" for those same quality bonds. (See Table 7)

Table 7

SIMPLIFIED DEFINITIONS OF RATING CATEGORIES

As interpreted by municipal issuers, underwriters, bond traders, and investors, the accompanying table expresses ratings in the simplest terms. Complete definitions of the ratings of both agencies will be found in publications of Moody's Investors Service and Standard & Poor's.

	Symbols	
Quality Characterization	Moody's	Standard & Poor's
Prime	Aaa	AAA
Excellent	Aa	AA
Upper Medium	A, A-1	A
Lower Medium	Baa, Baa-1	BBB
Marginally Speculative	Ba	BB
Very Speculative	B, Caa	B
Default	Ca, C	D

Note: The hyphenated ratings of A-1 and B-1 used by Moody's indicate those credits that are considered to be the better quality credits in the respective categories.

SOURCE: "The Rating Game"

Currently Texas school district ratings are distributed as follows:

	AAA	AA	A, A1	Baa, Baa1	Ba	Un-rated
No of dist.	4	30	198	392	1	475

According to *The Rating Game,* a book published in 1974 by the Twentieth Century Fund,

> ". . . The cost of capital varies greatly between bonds of different ratings; the higher the rating the lower the cost. Even a cursory look at the offering yields on new bond issues shows that, in good

[5]Cost of a Schoolhouse.

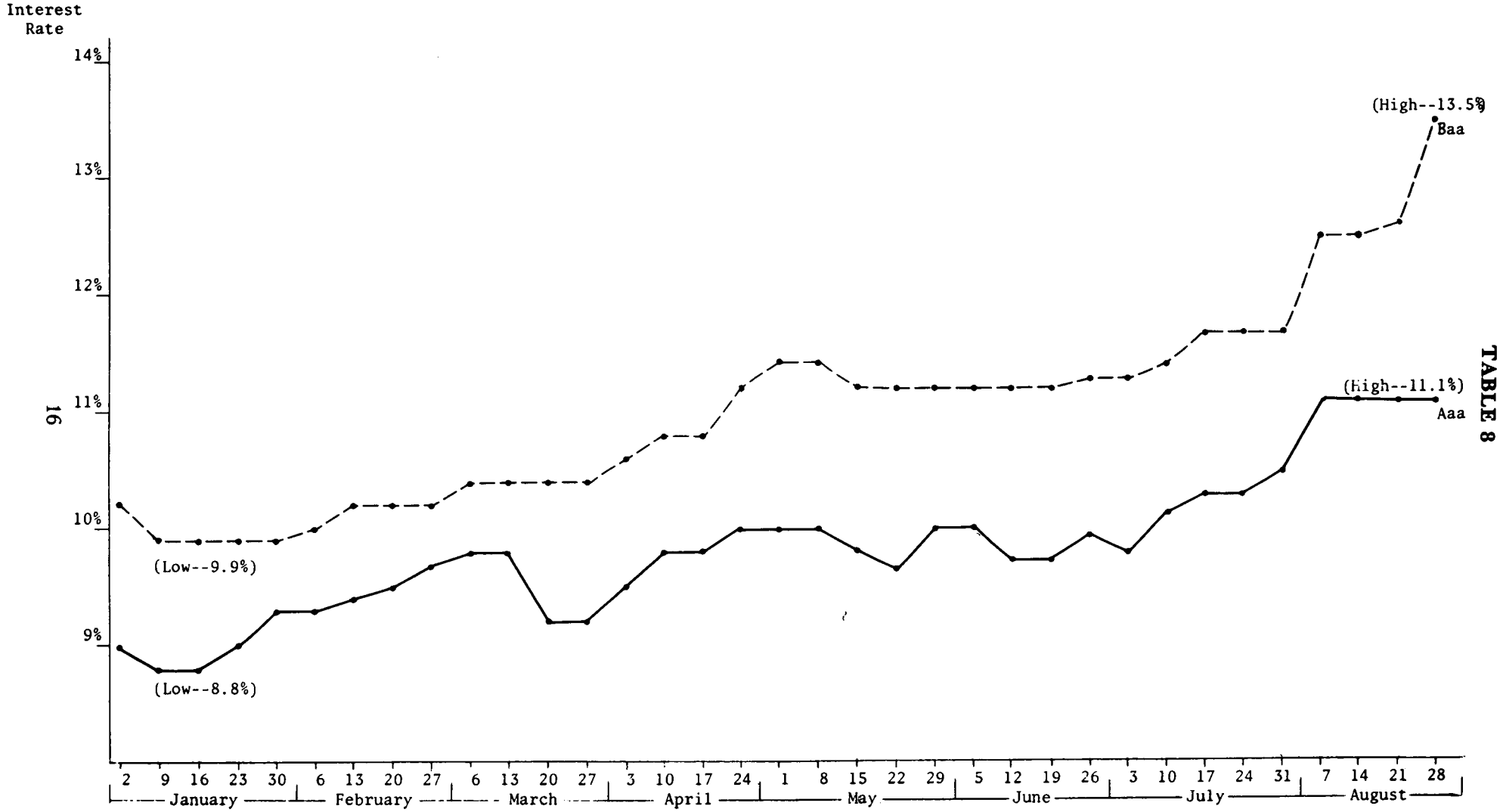
markets and bad, higher-rated bonds sell at lower yields (higher prices) than bonds with lower ratings.

"Several empirical studies have tried to determine the factors influencing interest rates on municipal bonds. All have found ratings to be the best explanation once the general level of interest rates and the maturity of the bond are held constant. Earlier investigations of interest rate differentials among grades relied primarily on a comparison of like-rated bonds for a fixed period of time, without isolating the other factors that influence bond prices. Recent studies have attempted to separate the influence of rating bond prices by more sophisticated statistical techniques.

"Bonds of different credit quality perform differently over the interest rate cycle—lower-rated issues are likely to fluctuate more than higher-rated ones. One analyst, observing changes in the mean price of various rated new issues as a function of changes in a market index, found the associated changes in yield on new issue bonds to be inversely related to their ratings. Lower grade bonds, therefore, are generally thought to have greater price volatility and hence greater market risk. How much of this is due to changes in demand and supply conditions rather than changes in fundamental appraisal of quality in unknown. In assessing the relationships between credit rating and interest cost, it is important to note that such relationships are based on average experience. On any given day, it is possible to find newly issued bonds of adjoining grades selling at the same price. An Aa-rated bond may yield as much as an A-rated bond, for yields on individual bonds can and do fall within bands by rating and these bands overlap.

"Furthermore, local conditions in various states can lead to systematic regional variations from national averages in bond prices. For example, states differ in their use of income and franchise taxes which usually, but not always, exempt bonds from taxation in the state where they are issued. Special pledging requirements to secure public deposits can lead to differences, as can provisions affecting the reserves of insurance companies or other financial institutions' investment. To these general conditions must be added various seasonal and random shifts in the demand for and supply of bonds possessing special, often highly localized, attributes. Yet, when all such local differences are sifted out, the existence of strong central tendencies of cost within the rating categories is indisputable." (See Table 8)

US AVERAGE WEEKLY INTEREST RATE FOR 20-YEAR GENERAL OBLIGATION BONDS
WITH CREDIT RATING OF Aaa AND Baa, JANUARY 2 - AUGUST 28, 1981



SOURCE: Texas ACIR staff compilations from various issues of the *Federal Reserve Bulletin*, January-September 1981.

Bond Rating Analysis

Under our present capital debt financing structure in Texas, the key to economy appears to be directly related to raising the rating of school districts' obligations. Municipal bond underwriters bid on school bonds on the basis of the merit standing as well as the rating of the issue. As the rating improves, the interest rate charged is lowered and *vice versa*! Even on small issues, the savings can amount to thousands of tax dollars over the life of a bond when interest rates are lowered. For example, if a district is able to sell a $15 million bond issue for 10 percent interest instead of 10.5 percent, the savings over a 15-year repayment period would be $600,000.

In assigning bond rating, importance is given to various factors such as measures of debt to wealth, population and the economic base of the community. However, according to *The Rating Game*, the exact formula for determining the various ratings are unknown.

If there are specific factors within the control of the school district that significantly affect the bond rating, it would be very advantageous to identify such factors. On the other hand, if the factors which are beyond the control of the district are so overpowering that the controllable factors are rendered relatively insignificant, it would be very important to make state policy-makers aware of the need for assistance to the districts in savings tax dollars.

Procedures

In order to study the relationship between a district's bond rating and the various economic variables in each district, a statistical analysis was conducted using the following procedure:

1. A list of the names and bond ratings of all school districts which sold one or more issues of bonds during the five-year period of 1975-79 was completed. Only those districts which had issues rated by Moody's Investors Service were selected for the final list of 358 school districts. Moody's ratings were selected since they rate more districts than Standard and Poor's.

2. A list of 26 variables believed to be of importance in determining bond ratings and credit-worthiness was developed. The variables selected included:

   (1) Maintenance Tax Revenue

   (2) Debt Service Tax Revenue

   (3) Debt Service Revenue as a Percent of Total Tax Revenue

   (4) Maintenance Revenue as a Percent of Total Tax Revenue

   (5) Residential Property as a Percent of Total Assigned Value

   (6) Oil and Gas as a Percent of Total Assigned Value

   (7) Agricultural Property as a Percent of Total Assigned Value

   (8) Minority Enrollment as a Percent of Total Enrollment

   (9) Debt Service Payments as a Percent of Maintenance Taxes Collected

   (10) Total Debt Service Payments

(11) Debt Service Payments as a Percent of Property Value

(12) Total Tax Revenue

(13) Industrial Property as a Percent of Total Assigned Value

(14) Total Industrial Assigned Value

(15) Total Residential Assigned Value

(16) Total Agricultural Assigned Value

(17) Total Oil and Minerals Assigned Value

(18) Percent of Taxes Collected

(19) Population Density

(20) Total Assigned Value

(21) Total Index Value

(22) Original Entries

(23) Square Miles

(24) Percent Tax Paid by Top Ten Taxpayers

(25) Median Income per Household

(26) Total Combined Debt

3. Data concerning each variable was assembled for the 358 school districts listed in step one. Sources of the data included Texas Education Agency files, Texas Municipal Reports and the U.S. Census.

4. Following the entry of the data into the computer, an analysis was made to obtain a rank-ordering of the variables in terms of their strength as predictors.

5. A discriminant analysis was run to test each of the variables to determine the probability of predicting whether a district would be rated "Baa" or below or "A" or above.

Results

The most significant variable identified was agricultural property as a percent of total assigned property. Other strong variables included:

(1) Total Industrial Assigned Value

(2) Total Agricultural Assigned Value

(3) Industrial Property as a Percent of Total Assigned Value

(4) Oil and Gas as a Percent of Total Assigned Value

(5) Debt Service Payments as a Percent of Property Value

(6) Total Debt Services Tax Revenue

All of the above listed variables are closely related to the taxable wealth of the districts. The analysis provided strong evidence of the correlation between taxable wealth of the districts and the bond rating process.

The discriminant analysis provided more useful information. In this statistical procedure, a variable of one district is compared with the same variable of all other districts. This process continues with each identified variable. Based on this comparison a determination is made as to the probability of membership in one of two groups—districts rated "Baa" or below and districts rated "A" and above. For example, if the probability on a specific variable indicates that the district should be rated "Baa" and the district's actual Moody's rating is "Baa," the district is considered to be correctly classified for the variable entered. For those variables which the probability of correct classification exceeds 90 percent of all districts analyzed, a strong correlation exists. Such was the case for 12 of the variables identified in the discriminant analysis for "Baa" rated districts. All 12 identified variables were closely related to the total wealth measures, population density and student population of the district.

The most significant variable of the 12 was the *total assigned value* of the district. With this variable, the probability for membership in each group approached 100 percent for "Baa" districts. No district in the state had been assigned an "A" rating or above with less than $100 million in assigned property value. There are 319 districts in Texas with less than $100 million in value. Further, only one district received a "Aa" rating with less than $500 million in assigned value. Only 229 of the 1,000 districts in Texas have assigned values greater than $500 million.

The same general pattern was found in relation to the other wealth variables. Good fiscal management, including low debt ratios, high percentages of tax collections, and efficient recordkeeping procedures are all important to school districts, and could mean the difference between an "A" rating and an "A-1" or between an "A-1" and a "Aa" rating. However, it appears that districts without a substantial tax base are powerless in improving their credit worthiness.

Based on the data in this analysis of the bond ratings of 358 school districts, the taxpayers for over 80 percent of the public school districts in Texas have little or no chance of being awarded a "Aa" or "Aaa" rating from the investor services without assistance from the state level.

Alternatives for Capital Debt Assistance

Several states are directly involved in assisting local governments and school districts in the area of capital debt financing. The degree of involvement varies considerably from state to state.

1. *Municipal bond banks*. . . Vermont, Maine, Alaska, North Dakota and New Hampshire have adopted the bond bank innovation, through which local governments can pool their bond issues, thus being able to offer larger issues, reduce costs of underwriting, and reduce the risk involved in holding debts of small, often unrated issues. The improved bond ratings and the security behind the bank bonds (e.g., the reserve fund) make the bonds attractive to prospective bidders, while enhancing the possibilities for lower rates of interest to be paid on the bonds.

2. *Full state assumption* . . . Hawaii, Florida and Maryland are the states that assume fully the financial requirements associated with school district capital construction. Hawaii is the only state that allows the local school districts to supplement the state assumption without limitation.

3. *State/local sharing* . . . Utilizing this method, both the state and school district contribute a percentage of the costs associated with capital construction and debt service. In Tennessee, for example, the state's share of the program is not to exceed 57.5 percent of construction costs.

4. *State flat grants* . . . In this method a lump sum is given to each school district (determined by such factors as number of teachers or pupils).

5. *State equalizing grant* . . . This method takes into consideration the existing assessed valuation of each school district and attempts to compensate for disparities in school district taxing power. Poor school districts with limited revenue sources are given larger amounts of aid than districts in higher income areas.

6. *State loans* . . . Several states, including Arkansas, North Dakota and Wisconsin, lend their school districts funds for capital construction and debt service at varying rates of interest.

Texas is one of 15 states that does not directly participate in their school districts' capital construction and debt programs. There are important reasons, however, why Texas does not assist school districts to a greater measure than it does presently. The primary reason is the amount of state involvement in local affairs—regulations, building requirements, etc.—that fiscal assistance programs on the part of the state would entail. Loss of local autonomy would seriously jeopardize the philosophy of both state and local government in Texas.

Other reasons exist, too, of course. Full state assumption would mean massive expenditures which the state would be unable to handle without imposing tax increases or diverting money from another area. Diverting additional funds for state loans to districts for construction purposes appears unlikely considering public education already uses over 35 percent of the state's budget. Likewise, flat grants would not be effective in Texas. If available money were spread evenly, those districts that really need money would not get enough to help while wealthy districts would be getting a windfall. The diverse nature of school districts' financial situation and administration is illustrated in the case studies, which begin on page 29 of this report.

By far the most effective means for a strong public borrower of high credit standing to enhance the obligations of a weaker unit is to extend to the latter's obligations its direct and unconditional guarantee.[6] States are very reluctant, however, to extend their "full faith and credit" to unconditionally guarantee debts of smaller governmental units. This reluctance results not from the state's fear of default, but rather from the potential impact such a practice could have on the bond rating of the state as a whole.

It appears, however, that Texas has the option of utilizing this important concept without jeopardizing the state's credit rating. Such an option exists because of the existence of the Permanent School Fund.

[6]The Appraisal of Municipal Credit Risk, Wade S. Smith, 1979, p. 185.

Permanent School Fund

The Permanent School Fund was created by the 5th Legislature in 1854 (Article VII, Section 5) with a $2 million appropriation. The Fund was made a perpetual state trust fund by the Constitution of 1876 which also provided public school lands as an endowment. Additional Acts later gave more public domain land and rights to the Permanent School Fund. Under these Acts, 46.5 million acres of land, including mineral interests of 7.1 million acres have been granted to the Fund. In 1954, the U.S. Congress gave clear title to its submerged coastal lands to Texas' Permanent School Fund. All of these lands and interests come under the jurisdiction and management of the General Land Office. Framers of the constitution established the Fund with the intent that it be used solely to benefit the public schools of Texas. All income derivable from the investment of the Fund was to be placed into an "available" school fund which would directly benefit the schoolchildren of Texas.

The State Board of Education has been given the authority (Section 15.02 of the Texas Education Code) and responsibility for proper investment of the Permanent School Fund. The Board approves the amount of money to be invested each month. In addition, it approves a list of corporations from which security purchases may be made and the allocation between equity and fixed income securities for each program.

The State Board delegates some of its investment responsibility to the Board Investment Committee. This Committee, consisting of members of the State Board, makes recommendations regarding investment policies. The Board Investment Committee chooses specific stocks from the approved list of securities for purchase or sale and also specifies fixed income securities to be sold. The Board Investment Committee has broad powers in directing the activities of the Investment Office in implementing the policies of the State Board of Education concerning the investment of the Fund.

The Investment Advisory Committee, consisting of five lay members with investment backgrounds, is appointed by the State Board of Education. This committee provides an independent and continuous review of investment policies and procedures of the State Board. The Advisory Committee makes its recommendations quarterly to the Board Investment Committee.

In addition, the State Board of Education employs an independent outside investment advisory firm to advise the Board Investment Committee on specific investment programs and economic forecasting. This firm is employed in an advisory capacity only.

All interest and dividends generated from investments of the Fund flow immediately into the Available School Fund. In 1961, the State Board of Education was authorized to invest the fund in corporate securities. Since that time, investments have been concentrated in fixed income and equity securities. At one time the Permanent School Fund did buy school bonds, but because of the desire to maximize earnings of the Fund, this practice was discontinued. As a tax-free institution, it is advantageous for the Fund to buy the higher-yielding taxable bonds.

Money is distributed to the schools from the Available School Fund on a per capita basis. In 1973, the Permanent School Fund provided $17.81 per student per year. With the current annual income level near $300 million, the rate will exceed $100 per student by the end of this fiscal year. Trading profits and losses are credited and debited to the corpus of the Fund. The more money the Fund generates, the less taxes have to be paid by the citizens of Texas. In the last 10 years alone, the non-tax revenue for public schools has amounted to $1.19 billion. Assuming a 9 percent yield, the Fund will be placing about $850 million into the Available School Fund by year end 1989.

Cash flowing into the Permanent School Fund originates from the sale or rental of its public lands, mineral rights, and royalties from oil and natural gas sales. This cash flow into the corpus is now running at about $500 million per year. The present size of the Fund is $3.5 billion, and the General Land Office has estimated that by year end 1989, the Fund will total about $9.48 billion.

According to the financial experts serving as advisers to the Capital Debt Subcommittee, the Permanent School Fund is of sufficient size and stability to guarantee all foreseeable capital debt needs of Texas public schools without endangering the corpus of the Fund. Further, it appears likely that the bond ratings of school districts issuing bonds guaranteed by the Fund would be enhanced considerably.

Recommendations

Based on the considerable amount of data collected and analyzed, the testimony heard from experts, and the suggestions of its advisers, the Subcommittee on Construction, Rehabilitation and Repair, and Capital Debt Financing makes the following recommendations:

1. *It is recommended that the bonds issued by the public school districts of Texas be guaranteed by the corpus and income of the Pernanent School Fund. Because the Texas Constitution restricts using the full faith and credit of the state to guarantee debt, expanded use of the Fund will require a constitutional amendment.*

Based on its research effort, the committee has determined that the most effective way to save school districts interest costs in the municipal bond market is to provide assistance in improving their bond ratings. Improvement of the bond rating is best achieved through a "guarantee" arrangement utilizing a large and stable financial source such as the Permanent School Fund. The Fund is constitutionally restricted to the "use by" and "benefit of" the public education system of the state. Assisting public schools in this manner appears to be well within the intent of the framers of the Constitution.

Based on information supplied by subcommittee advisers, a guarantee from the Permanent School Fund would most likely raise the bond ratings of the districts, thus saving a significant amount of tax dollars at no cost to the state. The provision of adequate safeguards protecting the corpus of the Fund from potential losses was of great concern to the subcommittee members. The following question-and-answer section illustrates important provisions which should be included in any proposed legislation in order to protect the corpus of the fund while securing the highest possible bond rating for Texas school districts.

1. Q. Which school districts qualify?

   A. All Texas school districts with taxing authority automatically qualify for the guarantee program.

2. Q. Which school bonds qualify?

   A. All school general obligation debt secured by ad valorem taxes qualifies when appoved by the Attorney General and registered by the Comptroller.

3. Q. Do refunding bonds qualify?

   A. Refunding bonds are issued to accomplish a savings in interest cost and qualify for the guarantee program.

4. Q. What is the extent of the guarantee?

   A. The State Permanent School Fund will guarantee only the payment of matured items of principal and interest for which inadequate local school funds are available.

5. Q. What is the guarantee of the State Permanent School Fund backed by?

   A. The guarantee of Texas school bond debt service is secured by a pledge of the income and assets of the State Permanent School Fund.

6. Q. Who will administer the program?

   A. Commissioner of Education, under rules and policies adopted by State Board of Education.

7. Q. In the event of a default by a Texas School district requiring the advance of funds by the State Permanent School Fund, what protection or reimbursement features are afforded the State Permanent School Fund for recovery of its monies?

   A. The State Permanent School Fund is reimbursed for advanced funds, including any statutory interest, from first State monies not constitutionally dedicated and payable to the school district. Repeated defaults by a school district may reflect acts of bad-faith, in which case and at the discretion of the Commission of Education, may be referred to the Attorney General pursuant to authorizing legislation as follows:

   "In the event of a default in the payment of the principal of or interest on obligations guaranteed by the State Permanent School Fund, or any other default as defined in the resolution authorizing the issuance of the debt, the Attorney General shall institute appropriate proceedings by mandamus or other legal remedies to compel the school district or its officers, agents and employees to cure the default by performing those duties which they are legally obligated to perform. These proceedings shall be brought and venue shall be in a district court of Travis County."

8. Q. What are the costs to school districts for benefit of this guarantee?

   A. It is recommended that no costs be associated with the guarantee program, as costs to the State Permanent School Fund should be negligible, except for record keeping as to outstanding school bonds covered by the guarantee.

9. Q. What limitations will be placed on the amount of guaranteed school bonds?

   A. To secure the highest rating for Texas school bonds, it is recommended that the par value of outstanding guaranteed school bonds be limited to and may not exceed twice the cost value of investments and other assets of the State Permanent School Fund, exclusive of real estate.

10. Q. What is the effective date of the program?

    A. It is anticipated that the proposed constitutional amendments and enabling legislation be presented to the 68th Legislative Session in 1983. Hence, the program could be effective upon passage of constitutional amendments in November 1983.

11. Q. Will a review program of construction and financial stability be necessary at the state level?

    A. It is believed that all school tax debt should automatically qualify under the program, subject to the limitation of the guarantee, and that a review program at the state level is not necessary with the respect to voted tax debt at the local level.

12. Q. Will the form of the bond contain notice of a guarantee by the State Permanent School Fund?

    A. It is highly recommended that the form of the bond contain an excerpt relating to the Constitutional Amendment authorizing the guarantee of the payment by the State Permanent School Fund. In the alternative, an endorsement on the face of the bond bearing an unqualified guarantee of the payment of the bond by the State Permanent School Fund might be appropriate.

13. Q. What procedures will be established for debt service advances by the State Permanent School Fund?

A. A school district or its designated paying agent shall notify the State Permanent School Fund of the matter of currently maturing or matured items of principal and/or interest for which inadequate funds are on deposit in the interest and sinking fund for their payment. Upon receipt of the notice, as provided by law, the State Permanent School Fund, through procedures established by the Comptroller and the State Treasurer, shall cause the transfer of necessary funds to the paying agent.

Upon receipt of funds from the State Permanent School Fund the paying agent shall provide for the payment of all matured items of principal and interest. The enabling legislation for this program shall provide that the Comptroller of Public Accounts and the State Treasurer provide the Commissioner of Education with copies of pertinent correspondence, requisitions, warrants or wire communications to evidence payment by the State Permanent School Fund, and will serve to support reimbursement to the Fund for advanced monies from first state funds payable to the school district.

14. Q. Will the program assist Texas school districts with respect to their bond ratings?

A. It is expected that the program will enhance the bond ratings of Texas school districts. However, such will largely depend on the nature of the Constitutional Amendments and enabling legislation, and early visitations with the rating services for their suggestions.

---

2. It is recommended that the legislature take appropriate actions to maintain the stability and ensure the continued growth of the Permanent School Fund. As such, it should allow the administrative expenses of the investment office for the Fund to be paid out of the investment proceeds.

It is the intent of the committee that the bond guarantee program utilizing the Permanent School Fund ensures that all public school districts in Texas receive the highest attainable bond rating from the rating services. In order to accomplish this goal, the present and continued stability and strength of the Fund used to guarantee the bonds must be exhibited. Currently, the Permanent School Fund is the largest endowed fund in the nation dedicated to financial assistance for public education. A factor which must be addressed in maintaining the stability of the Fund relates to the quality of personnel employed to administer the investment program.

Presently, the state is fortunate to have a highly competent staff working with the Permanent School Fund. It is difficult, however, to retain the type employee desired because of the needs of financial institutions for skilled financial analysts and bond traders. These institutions, unlike the Texas Education Agency, are not constrained by the state salary schedule when filling job vacancies. The staffing problem will continue to grow as the Fund grows if steps are not taken to address the causes. A fraction of 1 percent of the earnings for administration of the Fund would allow the State Board of Education to effectively resolve this problem.

---

3. It is recommended that the Texas Energy and Natural Resources Advisory Council (TENRAC) be designated and funded as the Energy Efficiency Resource Center for school districts in Texas. The Resource Center would be responsible for conducting programs in energy management, school plant operator training, and energy efficiency in new building design. The center would also provide limited technical assistance to school districts, administer federal programs which provide grants to schools for energy conservation projects, serve as a clearinghouse for energy-related information on school facilities, and offer the following services to educators: energy resource workshops, a film library, and energy education lesson packages.

Energy conservation is an issue of great import to the school districts of this state. Not only should the schools set an example for their students in safeguarding the world's rapidly depleting resources, but soaring utility and fuel costs must also be of paramount concern to the districts.

TENRAC is currently working on a variety of projects that will greatly assist school districts in making their own systems energy efficient, not only in maintenance, but also in construction and design of new facilities. The council is developing written information in the form of a how-to guide and a workshop accompaniment. This information will be utilized in two steps: First, an energy management plan aimed at superintendents and principals, explaining why districts need energy management plans, how they can formulate such plans, and the dollar savings involved. The second step is a training series for maintenance personnel, emphasizing preventive maintenance without having to put additional funds into the existing system.

TENRAC also sends representatives to various conferences around the state to explain energy conservation plans. In addition, the council has collected data on experimental energy programs throughout the state which might be useful to school districts.

By utilizing this state agency in a more productive manner, school districts will not only be benefitting the taxpayers by saving on utility costs, but also protecting the natural environment for future generations.

Appendix A

Glossary

ACIR—Advisory Commission on Intergovernmental Relations—ACIR was set up to meet the objectives of the Intergovernmental Cooperation Act, passed in 1971 to improve coordination and cooperation between the state and its local governments, and between the state and the Federal Government. The commission's duties include the evaluations of the interrelationships between Texas local, state and federal agencies on a continuing basis; the preparation of studies and recommendations to improve these relationships; the evaluation of proposed and existing federal programs and the assessment of their impact on Texas; the evaluation of the state's role in assisting its political subdivisions to carry out public responsibilities and proposed recommendations for improvement; the encouragement and, where appropriate, the coordination of studies relating to intergovernmental relations conducted by universities, state, federal and local agencies, and other research-oriented groups; and the provision of a forum for the discussion and resolution of serious intergovernmental problems.

Ad Valorem Tax—A tax based on the value (or assessed value) of property. Property falls into five identifiable categories: land; improvements on land; tangible personal property; intangible property; and oil, gas and mineral rights.

Bond—A bond is a contract to repay borrowed money at a given date and to pay interest at an agreed rate. A bond issue is made up of individual bonds, usually in denominations of $5000 each, which mature in installments—the mark of a serial bond. After a school district has informed and duly received the approval of its voters through an election process, the bond issue is sold in installments to a municipal underwriting syndicate. The law requires competitive bidding in the sale of school bonds. Normally, a syndicate whose bid results in the lowest net interest cost to the district will be awarded the contract. The syndicate in turn retails the bonds to investors.

Bond Ratings—Municipal bonds are often rated to provide an indication of investment quality. The two firms in the country that rate municipal bonds are Moody's Investors Service and Standard & Poor's Corporation, both based in New York. The firms each examine the underlying security factors in bonds of state and local governmental agencies and designate an alphabetical symbol to indicate the strength of security. For example, Moody's rates bonds of highest quality "Aaa," while speculative secuities may receive a "Ba" rating. Standard & Poor's uses "AAA" down to "BB."

Capital Debt—Funds borrowed on either a short- or a long-term basis to finance improvements on buildings, land acquisition, facility construction, and/or cost of equipment and furnishings.

Debt Service—Required payments for interest on or retirement of principal amount of a debt.

Default—Failure to pay principal or interest promptly when due.

Designated Purpose Debt—Debt incurred with the understanding of and approval by the voters that the funds will be utilized for a specific, pre-determined purpose.

General Obligation Debt—The obligation of a governmental unit with the power to levy and collect taxes which is repayable, initially or ultimately, from the general revenues. The obligation is also backed by the full faith and credit of the issuer.

Interest and Sinking Fund—A reserve fund accumulated over a period of time which provides for the ultimate repayment of a debt through periodic payments, which may or may not be disbursed all at one time.

MAC—Municipal Advisory Council—The council was chartered as a trade association of dealers in Texas municipal securities. It is a non-profit organization dedicated to the betterment of that marketplace where approximately $3 billion of capital from the investor community is annually made available to state and local government in Texas for financing public improvements. In addition, MAC maintains the most complete data base on municipalities in the state.

Market Value—a determination of what a piece of property would sell for on the open market. In Texas, this value is also the assessed value, which is used to determine the tax levied on that piece of property. A local government can divide the property tax needs by the assessed valuations in order to set the tax rate, expressed in terms of so much per $100 of assessed value.

Marketability—The measure or ease with which a bond can be sold in the secondary market.

Maturity—The date upon which the principal of a bond becomes due and payable.

Overlapping Debt—That portion of the debt of other governmental units for which residents of a particular municipality or political subdivision are responsible.

Principal—The face amount of a bond, exclusive of accrued interest.

Secondary Market—The market in which underwriting syndicates reoffer or retail the bonds which they have originally purchased.

State Property Tax Board—Set up by the Texas Property Tax Code Annual, Section 5.01, the Board provides a wide range of services designated to improve and standardize the operation of the property tax system throughout the state. Duties include instruction and training for the public, preparation of appraisal manuals and consumer information; providing technical and professional assistance adoption of standards, and conducting annual studies in each appraisal district.

TENRAC—Texas Energy and Natural Resources Advisory Council—Action by the 66th Texas Legislature created this council by the merger of the Texas Energy Advisory Council and the Natural Resources Council. Efforts of the council focus on five responsibilities, including: adoption and continuous reassessment of an energy and a natural resources policy; recommendation of legislation to Congress and the Legislature regarding implementation of these policies; review of policies or actions of federal agencies and their impact on Texas; and the adoption of plans and awarding of contracts to develop alternative energy technologies under the Energy Development Fund.

Time Warrant—A promissory note which operates much in the same manner as a personal loan to an individual, except that there are certain additional stipulations. The Texas Education Code, Section 20.43, states that time warrants ". . . shall mature in serial installments of not more than five years from their date of issue." In addition, the interest-bearing time warrants shall not be issued ". . . in excess of five percent of the assessed valuation of the district . . . nor shall the payment . . . in any one year exceed the anticipated surplus income of the district for the year in which the warrants are issued and the total amount outstanding at any given time cannot exceed $120,000." The Education Code also stipulates that the time warrant shall be used for specific purposes, including: repair or renovation of school buildings; purchase of school buildings or equipment; equip schools with heat, water, sanitation, lunchroom and electric facilities; or to employ a firm to compile taxation data.

Yield—The net annual percentage of income from an investment. The yield of a bond reflects interest rate, length of time to maturity, and write-off of premium or discount.

Appendix B

Case Studies

An integral part of the research of the Subcommittee on Construction, Rehabilitation and Repair, and Capital Debt Financing was a series of case studies of construction financing in local school districts. The subcommittee visited a variety of school districts which differed in student population, geographical size and location, and economic conditions. The case studies that follow illustrate the vast differences between school districts in Texas, and emphasize the difficulty in attempting to design one state policy of financial aid that would adequately assist all local school districts with their individual construction and renovation needs.

Brownsville Independent School District

Demographic Data

Central Administration Office: 1102 East Madison
Brownsville, Texas 78520

County District Number 031-901 Cameron County 95 square miles

Student Population, Fall 1982: 30,939

Ethnic Make-Up: 15 percent black
78 percent Hispanic
8 percent white and other

Number of Campuses: 26 elementary
5 middle
3 high
34 total

Market Value of Taxable Property, 1981-82: $577,000,000

Current Tax Rate, 1981-82: $1.30

Outstanding Debt, 1980-81: $13,645,641

General Economic Conditions

Brownsville ISD is an agricultural and industrial area which includes the city of Brownsville. The city serves as a trade center for much of the fertile lower Rio Grande Valley. Tourism is the city's biggest industry, as Brownsville is a primary gateway to Mexico. The district, rated "Baa" by Moody's Investors Service, passed a bond issue in the spring of 1982 for $48 million, which will be used over the next eight years for extensive construction projects. Both new construction and major renovation work will be included. Air conditioning and land acquisition for four elementary, one middle and one high school are also part of this bond package.

Problems Unique to the District

Brownsville ISD is faced with significant problems in providing adequate housing for instructional programs. Facility problems are basically two-fold: 1) as an older district, many of its existing buildings are in need of renovation and repair; and 2) the district's student enrollment is increasing at a rapid rate, and that rate may

increase due to the Supreme Court *Plyler vs. Doe* decision, requiring Texas school districts to educate the children of illegal aliens. These two factors seriously impact the need for funding for facilities in the district.

Brownsville ISD has one of the lowest taxable property levels in the state, on a per pupil basis. According to preliminary values from a 1981 State Property Tax Board study, the statewide average is $189,000 per student. Brownsville's figure was $50,925—only 27 percent of the statewide average. The district enjoys a high rate of citizen approval and cooperation for its school construction/renovation projects. However, the economic climate in the district provides neither sufficient funding for present needs nor an optimistic outlook for the district's construction plans over the next decade. The need is obvious, particularly in light of the expected continued influx of alien children from nearby Mexico—both legal and illegal. Brownsville ISD, however, can do no more than answer the needs that exist today—the $48 million bond issue recently passed will only allow the district to maintain status quo.

Seventy percent of the district's classrooms are not air conditioned; the difficulties the district has in keeping pace with its population growth seriously impact its ability to provide enrichment programs for its students. Yet, these issues are considered luxuries to Brownsville ISD, and are greatly overshadowed by the basic problems of providing adequate student housing.

At present, the district utilizes 420 portable buildings, 12 of which were built between August and November 1982 at a cost of $100,000. Building portables is the least expensive and fastest method of housing students, but more importantly to this study, it is the only method by which Brownsville ISD can handle the increase in student population, since enough money cannot be generated to construct the needed permanent facilities. Lack of money in a construction fund also means that the money to construct portable buildings must come from the district's maintenance and operation fund, which in turn provides much less money for routine renovation and repair.

Brownsville ISD officials are only too aware of the fact that plans for the next five-to-10 years may already be inadequate, yet the district can hope for little more than the financial ability to keep abreast of the pressing need for minimum facilities for its rapidly increasing population.

Conroe Independent School District

Demographic Data

Central Administration Office: 702 North Thompson
Conroe, Texas 77301

County District Number 170-902 Montgomery County 334 square miles

Student Population, Fall 1982: 21,370

Ethnic Make-Up: 5 percent black
4 percent Hispanic
91 percent white and other

Number of Campuses: 13 elementary
5 middle
3 junior high
2 high
26 total

Market Value of Taxable Property, 1981-82: $2,225,814,590

Current Tax Rate, 1981-82: $1.34

Outstanding Bonded Indebtedness, 1980-81: $55,915,000

General Economic Conditions

Located approximately 30 miles from downtown Houston, Conroe ISD is situated in a mineral-producing and lumbering area. The Conroe Oil Field is one of the major producing fields in the state. The district contains an attractive area of suburban development, principally to the south of the town of Conroe.

Bonds have traditionally financed school construction in Conroe. Their current bond rating from Moody's Investors Service is "A1." The most recent bond election was in 1977 for $11 million. The most recent bond election was held in Fall 1982 for $56 million. This was approved by 61 percent of the voters. It will be implemented by a five-year plan and will be used for the construction of eight elementary schools.

Problems Unique to the District

Conroe ISD is a fast-growing community whose primary development is residential rather than commercial. With approximately 1200 homes being built per year, the district adds enough schoolchidren to its population each year to fill an average elementary school (approximately 1000 students). Three of the district's elementary schools are already operating at full capacity, despite the fact that four new schools were built in 1981-82. The district currently uses 38 portable buildings, and, in order to keep up with the population growth, must add at least four portable buildings each year.

The district has some land available for construction, but will need to purchase additional land within the next five years. They plan to build at least eight new schools during that period. In addition to overcrowding and the subsequent need for the construction of new facilities, many of the present facilities of Conroe ISD are in need of renovating—some on a rather large scale.

Conroe's economic base is fluctuating: some industry is coming into the area, but at the same time other companies are reducing their working personnel. The Conroe Oil Field, while still one of the major producing fields in the state, has dropped considerably in taxable value—down $211 million in 1980 and another $186 million in 1982—because its wells are not producing as well as they once were. Exxon has plans to build its headquarters within the district in six to eight years. While this will add to the tax base, it will also bring many additional families into the district. The district must continue to operate under the assumption that it will be relying heavily on its residents to finance school construction. Community support has been good in the past, but administrators are concerned over impending tax increases necessary for new construction and/or renovation.

Dallas Independent School District

Demographic Data

Central Administration Office: 3700 Ross Avenue
Dallas, Texas 75204

County District Number 057-905 Dallas County 351 square miles

Student Population, Fall 1982: 134,074

Ethnic Make-Up: 49 percent black
21 percent Hispanic
30 percent white and other

Number of Campuses: 137 elementary
20 middle
20 high
6 magnet
7 alternative
5 service centers
4 administrative facilities
15 other
217 total

Market Value of Taxable Property, 1981-82: $21,559,227,941

Current Tax Rate, 1981-82: $0.80

Outstanding Debt, 1980-81: $133,828,150

General Economic Conditions

Dallas Independent School District is located in Dallas County and contains almost all of the city of Dallas. The city is the leading financial, commercial, industrial, educational and cultural center of the southwest, serving as headquarters for a number of large oil companies and other international firms. Dallas is also one of the nation's top three cities in convention and trade shows. Leading taxpayers include Southwestern Bell Telephone and Dallas Power and Light.

The district has traditionally had a strong financial base. One of Texas' four "Aaa" rated school districts, Dallas finances school construction with bonds, and has never had a bond election fail. However, the increase in the number of childless households in the Dallas ISD area, along with a generally depressed economy, has created an unfavorable climate for bond elections, and district administrators do not plan on proposing another bond election in the foreseeable future. In order to generate funds in a less-than-friendly economic atmosphere, the district will have to turn away from bond issues and develop other workable systems.

Problems Unique to the District

Dallas ISD is unique among Texas school districts simply by virtue of its size. Such a large student population poses special problems. In addition to the regular maintenance and operation difficulties associated with a large district, Dallas ISD must also cope with a shifting population.

Dallas ISD has done extensive facility planning for the next five years. In order to keep the shifting population properly housed, the district must continuously re-situate some of its buildings. As the population moves, some schools are left idle, while other, previously stable facilities become overcrowded. Within the next five years, the district will be closing seven elementary schools—five of which are located in the northern section of the district—and constructing two new ones in other areas. In addition, three or four of the oldest elementary schools will need to be replaced next year.

The district will be selling 25 acres of prime property in downtown Dallas, which should generate approximately $45 million to be used toward the construction of a magnet school. Additional monies will come from the sale of some of the seven elementary schools that the district is closing this year. The district also plans joint usage of land with other public agencies as a means of saving taxpayers' money. In this way, too, the district will be able to enlarge some of its campuses—many of which are now less than ideal in size.

According to school officials, major construction work planned for the next five years will likely be financed by the implementation of a two- or three-cent, special tax levy, which could generate approximately seven million dollars per year. The district's primary financial plans must focus on coping with the shifting student population and keeping abreast of necessary construction without putting additional burden on the taxpayers.

Houston Independent School District

Demographic Data

Central Administration Office: 3830 Richmond
Houston, Texas 77027

County District Number 101-912 Harris County 312 square miles

Student Population, Fall 1982: 206,205

Ethnic Make-Up: 45 percent black
28 percent Hispanic
27 percent white and other

Number of Campuses:

171	elementary
1	middle
31	junior high
21	senior high
3	junior/senior high
10	alternative
237	total

Market Value of Taxable Property, 1981-82: $22,124,693,040

Current Tax Rate, 1981-82: $1.04

Outstanding Debt, 1980-81: $210,017,617

General Economic Conditions

The district includes the city of Houston—the state's largest city—and the residential cities of Bellaire, West University Place and Southside. The district is economically supported by oil-producing, refining and petrochemical industries; heavy industry; and food and chemical production. Houston is a major manufacturing center, producing a wide variety of products. Principal taxpayers include: Southwestern Bell, Houston Lighting and Power, First City National Bank, Texas Commerce Bank, Exxon U.S.A. and IBM Corporation.

Houston ISD, which is one of four Texas school districts rated "Aaa" by Moody's Investors Service, has had only one bond issue fail. That was in 1972 and the funds were to be dedicated for the rehabilitation of school facilities. In 1976, the district brought a $150 million bond issue before the voters. The passage of this bond package, which was approved by 70 percent of the voters, was attributed to the fact that officials provided voters with specific plans for the bond money by publishing a long-range schedule for construction.

Problems Unique to the District

Houston ISD is not only the state's largest district, it is also one of the most steadily growing districts. Size and constant expansion create unique problems, and the district's main concerns center around keeping up with

the growing and shifting population. Problems of growth are compounded by the fact that residential construction in the district is concentrated primarily in apartment dwellings. One area of development thus houses many times the number of people that an area of single family dwellings does. Coping with this type of growth will be Houston ISD's major construction-related concern over the next 10-to-20 years. At the same time that voters passed the $150 million bond issue in 1976, they also passed a $147 million, pay-as-you-go program of construction and renovation. This money will be raised by a seven-cent tax rate increase. The theory behind this was that the entire construction/renovation project would take many years, and rather than wait until the funds were needed and pay interest on the bonds for another 15 years, the district could—and did, starting in 1977—"put aside" money each year that would provide cash for portions of the construction projects. In addition, the district would earn income on the money that was not immediately needed for construction by investing it in CDs and Treasury Bills.

The district has developed a comprehensive, long-range schedule for the construction of schools. Over the next eight-to-10 years approximately 32 schools will be in various stages of construction. From time-to-time, the district has been able to build elementary schools and other small facilities on an emergency basis with money from the General Fund. However, it will still be a financial challenge for Houston ISD to keep abreast of population growth and shifting, and to follow its schedule for renovation and repair of all of its buildings, some of which are well over 60 years old.

District officials have indicated that they have no plans for a bond election for construction in the near future. The district plans on generating funds through a series of tax levies such as the one implemented in 1976, which will be dedicated for construction/renovation purposes. District officials believe, however, that such a levy will not be needed for several years. The district already uses approximately 1,000 portable buildings which assist in cases of "overnight" spurts in population growth as well as housing special programs of various kinds. Portable buildings are about half the expense of permanent facilities, and are a necessary part of the district's construction plans.

Katy Independent School District

Demographic Data

Central Administration Office: P.O. Box 159
Katy, Texas 77449

County District Number 101-914 Harris County 181 square miles

Student Population, Fall 1982: 12,299

Ethnic Make-Up: 3 percent black
3 percent Hispanic
94 percent white and other

Number of Campuses: 10 elementary
4 junior high
2 high
1 special education
1 alternative instruction
18 total

Market Value of Taxable Property, 1981-82: $2,445,030,610

Current Tax Rate, 1981-82: $0.85

Outstanding Debt, 1980-81: $84,215,000

General Economic Conditions

Katy ISD is situated in a highly industrialized area with over 2,800 manufacturing plants and the nation's largest concentration of petrochemical plants. The district is also a mineral producing and agricultural area, although agricultural production is diminishing and is being replaced in the local economy by industry. Top taxpayers include Exxon Corporation, Southwestern Bell and several real estate firms. Katy ISD is rated "A1" by Moody's Investors Service, and has financed all of its past facility construction through the issuance of bonds.

Problems Unique to the District

Katy ISD is faced with explosive population growth and a subsequent need for new facility construction. While the district has a relatively fast-growing economic base, the debt for facility construction necessary to handle the expected population growth will be enormous. Plans include the construction of two elementary and one high school by 1984, and six junior high schools by 1987. The district has purchased 10 proposed building sites and will likely purchase three more in the near future. Renovation is not a major concern at present because none of the district's facilities are over 10 years old. Table "A" is a projection chart for bond issues in Katy through 1990, which was presented at a meeting of the Select Committee on Public Education by the district's superintendent.

The district has sold a total of $58 million in bonds in the past three years. While the current tax rate is $0.85, as indicated on the projection chart, it is expected to rise to $0.98 by 1990. While the voters of Katy ISD have responded favorably in the past to bond elections, the projected growth of the district's capital debt is of great concern to district officials.

San Antonio Independent School District

Demographic Data

Central Administration Office: 141 Lavaca Street
San Antonio, Texas 78210

County District Number 015-907 Bexar County 76 square miles

Student Population, Fall 1982: 63,384

Ethnic Make-Up: 14 percent black
76 percent Hispanic
10 percent white and other

Number of Campuses: 65 elementary
17 junior high
8 high
90 total

Market Value of Taxable Property, 1981-82: $2,173,600,000

Current Tax Rate, 1981-82: $1.40

Outstanding Debt, 1980-81: $27,124,507

Table "A"

BOND ISSUE PROJECTIONS

YEAR	ASSESSED VALUE	OUTSTANDING DEBT	NEW DEBT	RETIRED DEBT	TOTAL DEBT	PRINCIPAL DUE	INTEREST DUE	TOTAL DUE	REQUIRED TAX RATE	1% INTEREST REDUCTION	ADJUSTED TAX RATE	1½ % INTEREST REDUCTION	ADJUSTED TAX RATE
1982	2,450,000,000 ACT	76,435,000	17,600,000	4,065,000	89,970,000	4,065,000	6,121,671	10,186,671	.44	N/A	N/A	N/A	N/A
1983	3,250,000,000 EST	89,970,000	37,500,000	5,507,200	121,962,800	5,507,200	14,041,911	19,549,111	.64	18,842,678	.61	18,489,462	.60
1984	3,650,000,000 12½	121,962,800	37,500,000	6,863,700	152,599,100	6,863,700	17,794,801	24,658,501	.71	23,625,457	.68	23,075,891	.67
1985	4,080,000,000 12	152,599,100	31,000,000	8,017,000	175,582,100	8,017,000	20,885,599	28,885,599	.75	27,579,907	.71	26,927,062	.69
1986	4,550,000,000 11½	175,582,100	34,000,000	9,519,300	200,062,800	9,519,300	24,500,081	34,019,381	.79	32,395,388	.75	31,583,392	.73
1987	5,050,000,000 11	200,062,800	37,000,000	11,056,600	226,006,200	11,056,600	28,313,291	39,369,891	.82	37,411,428	.78	36,432,196	.76
1988	5,580,000,000 10½	226,006,200	40,000,000	12,904,900	253,101,300	12,904,900	30,336,007	43,240,907	.86	41,093,059	.82	40,019,135	.80
1989	6,130,000,000 10	253,101,300	60,000,000	15,297,500	297,803,800	15,297,500	37,178,120	52,475,620	.90	49,745,138	.85	48,379,897	.83
1990	6,700,000,000 9½	297,803,800	66,000,000	18,328,100	345,475,000	18,328,100	44,187,793	62,515,893	.98	59,187,941	.93	57,523,965	.90

General Economic Conditions

San Antonio Independent School District includes the downtown area of San Antonio, the third largest city in the state and a leading manufacturing, retail, financial and medical center of South Texas. Economically, the school district relies upon a tax base which consists mostly of small businesses. Although a new mall is anticipated for the downtown area and other revitalization projects have been recently completed, the district's tax base in not expanding as rapidly as some other urban areas in Texas.

The last successful bond issue voted on in the district was in 1968 and totaled $35 million. A bond issue was presented to the voters in 1977, intended specifically to provide air conditioning to the schools. The bond issue was defeated—48.6 percent for, 51.4 percent against. As a result, the only school buildings now air conditioned are the eight high schools and two of the junior high schools in the district.

Problems Unique to the District

San Antonio ISD is one of the oldest school districts in the state and, unlike many districts, has a relatively stable student population. It is completely encompassed within the city of San Antonio, having virtually no room to expand. To compound the problem, San Antonio has a rather low tax base for a city its size ($2.17 billion) and a lower-than-average median income per household ($15,433 compared to a state average of $15,914—1979). The general population consists of many individuals near or over retirement age. This predominance of low- to middle-income senior citizens makes it nearly impossible for the district to pass a bond issue for school construction or renovation, despite the "A1" rating the district has received from Moody's Investors Service.

The district is chiefly concerned with how it will finance the badly needed rehabilitation of its facilities, many of which are in excess of 50 years old. The district previously utilized federal impact aid monies to supplement those needs, but federal cuts have mandated that district officials find another source for funding renovation and repair. The district already relies heavily on portable buildings, but these do not negate the renovation needs of the district.

District officials are not optimistic about the financial picture for the immediate future. While construction of new buildings is not a pressing concern, renovation is. Also, district officials are deeply concerned over the lack of air conditioning in the majority of its schools, and feel that this is a necessity if the buildings are to be utilized to their fullest potential. The district is experimenting with cross-ventilation systems in some of the older buildings, as well as considering the option of utilizing ceiling fans to a greater extent, but it is not yet known whether any of these options will sufficiently answer the cooling needs of the schools.

The administration at San Antonio ISD has acknowledged that it will be impossible to finance all the needed air conditioning and renovation on the current local tax base without a bond issue, yet they are also fully cognizant of the fact that the mood of the voters in the district is not condusive to getting a bond issue passed in the near future.

Ysleta Independent School District

Demographic Data

Central Administration Office: 8445 Valdespino
El Paso, Texas 79907

County District Number 071-905 El Paso County 66.6 square miles

Student Population, Fall 1982: 42,500

Ethnic Make-Up: 5 percent black
60 percent Hispanic
35 percent white and other

Number of Campuses: 30 elementary
6 middle
2 junior high
7 high
1 learning center
46 total

Market Value of Taxable Property, 1981-82: $2,205,727,984

Current Tax Rate, 1981-82: $0.73

Outstanding Debt, 1980-81: $66,926,436

General Economic Conditions

The economy of the El Paso area, of which Ysleta ISD is a part, is based on manufacturing, agriculture and commerce. The district itself is a residential and industrial area including approximately one-third of the population of El Paso. The superb climate, dramatic scenery and proximity to Mexico make El Paso one of Texas' most popular tourist and vacation areas.

The district has traditionally financed construction through the issuance of bonds, which have been rated "A" by Moody's Investors Service. Seven issues have been passed in the last 15 years. The district is still holding $10 million in bonds approved by district voters in March 1979. Following completion of an intensive, five-year needs assessment, the district passed—by 66 percent—a bond issue in May 1982 for an additional $63 million. Five million of this issue will go toward improvements in older buildings throughout the district.

Problems Unique to the District

Ysleta ISD is growing rapidly in population—8,000 additional students are estimated within the next five years—but that growth is occurring without comparable economic growth. Therefore, the district is forced to rely heavily upon a residential tax base. Another of the district's main concerns centers around the shifting nature of the population. The near-north area is declining in enrollment; the southern area is growing rapidly; and the northern section, while experiencing slow growth at the moment, has a large amount of vacant land for potential growth. A large number of apartment complexes and other high density housing projects are currently under development in the district.

Ysleta ISD must rely on bussing to transport students from the growing sections of the city to the underused buildings in the declining areas. Other means of coping with the uneven growth patterns include moving portable buildings—of which Ysleta uses 143 at present—from one area to another.

Ysleta ISD is facing pressing construction needs in the next five-to-ten years. The district estimates that it will need several elementary schools and at least one additional high school. Bond money has already been allocated for the procurement of land for elementary schools. Manufacturing is increasing in the district, with plans under consideration for a large industrial park to be constructed in the near future. Until then, however, the district must rely on its almost purely residential tax base. The district board and administrators are concerned with the tax burden future construction might place on the citizens. The funds are needed, but how often and for how much they can ask the voters is a major concern.

Appendix C

Survey Questionnaire

Capital Debt Financing

1. What is the total number of school buildings containing classrooms in your district? _____

2. What percentage of your student population is housed in temporary or portable buildings?

   ____ None ____ Less than 5% ____ 5-25% ____ over 25%

3. Why do you use portables in your district?

   ____ do not use portables
   ____ convenience only
   ____ cope with fast growth and/or population shifts
   ____ lack of funds for permanent construction
   ____ other (please describe)
   _____
   _____
   _____

4. What percentage of the classrooms in your district are air conditioned?
   ____ None ____ Less than 25% ____ 25% to Less than 75% ____ 75% or Above
5. What is the percentage of total educational space leased or rented by the district for instructional purposes?
   ____ % ____ do not lease space
6. How would you assess your district's facilities concerning overall condition of the buildings?
   __ poor (Extensive renovation and repairs needed)
   __ fair (Moderate renovation and repairs needed)
   __ good (Very little renovation and repairs needed)
   __ excellent (Only routine maintenance needed)
7. Will you initiate any construction/renovation projects in the next:
   __ 1-3 years
   __ 4-6 years
   __ 7-10 years
   __ none anticipated
8. What is the estimated cost of such construction? (rounded to the nearest million) $_____
9. What will be the primary method of financing this construction? (check one)
   __ bonds
   __ surplus funds
   __ time warrants
   __ direct tax levy for construction (pay-as-you-go)
   __ other (please describe)
   _____
   _____
   _____
10. Will the construction involve
    __ educational space __ auxiliary space

11. Will the construction project(s) involve
    - ___ elementary schools
    - ___ jr. high/middle schools
    - ___ senior high schools
12. If your district has major renovation plans, do they involve
    - ___ structural renovation
    - ___ addition or renovation of air conditioning systems
13. Is energy conservation a high priority in your district?
    ___ Yes ___ No ___ Renovation & Repair ___ New
14. Please describe any energy conservation measures that you now employ which you believe to be particularly effective.

By_____ __B. No._____

A BILL TO BE ENTITLED

AN ACT

relating to the guarantee of certain school district bonds.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Chapter 20, Texas Education Code, is amended by adding Subchapter E to read as follows:

SUBCHAPTER E. GUARANTEED BONDS

Sec. 20.901. DEFINITIONS. In this subchapter:

(1) "Board" means the State Board of Education.

(2) "Commissioner" means the commissioner of education.

(3) "Fund" means the permanent school fund.

Sec. 20.902. GUARANTEE. (a) On approval by the commissioner of education, bonds issued under Subchapter A of this chapter, including refunding bonds, are guaranteed by the corpus and income of the permanent school fund.

(b) The commissioner may not approve bonds for guarantee if the approval would result in the total amount of outstanding guaranteed bonds exceeding an amount equal to two times the cost value of the permanent school fund, exclusive of real estate.

Sec. 20.903. ELIGIBILITY. To be eligible for approval by the commissioner, bonds must be:

(1) issued under Subchapter A of this chapter by an accredited school district;

(2) approved by the attorney general; and

(3) registered with the comptroller of public accounts.

Sec. 20.904. APPLICATION FOR GUARANTEE. (a) A school district seeking the guarantee of eligible bonds shall apply to the commissioner.

(b) The application must be accompanied by a fee set by rule of the board in an amount designed to cover the costs of administering the guarantee program.

Sec. 20.905. GUARANTEE ENDORSEMENT. The commissioner shall endorse bonds approved for guarantee with:

(1) his signature or a facsimile of his signature; and

(2) a statement relating the constitutional and statutory authority for the guarantee.

Sec. 20.906. NOTICE OF DEFAULT. Immediately following a determination that a school district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the school district or the district's paying agent shall notify the commissioner.

Sec. 20.907. PAYMENT FROM PERMANENT SCHOOL FUND. (a) Immediately following receipt of notice under Section 20.906 of this code, the commissioner shall cause to be transferred from the appropriate account in the permanent school fund to the district's paying agent the amount necessary to pay the maturing or matured principal or interest.

(b) Immediately following receipt of the funds for payment of the principal or interest, the paying agent shall pay the amount due and forward the bond or coupon uncancelled to the state

treasurer. The state treasurer shall hold the bond or coupon on behalf of the fund.

(c) Following full reimbursement to the fund with interest, the state treasurer shall cancel the bond or coupon and forward it to the school district for which payment was made.

Sec. 20.908. BONDS NOT ACCELERATED ON DEFAULT. (a) If a school district fails to pay principal or interest on a guaranteed bond when it matures, other amounts not yet mature are not accelerated and do not become due by virtue of the school district's default.

(b) The board by rule may authorize the commissioner to pay principal or interest not matured on a guaranteed bond.

Sec. 20.909. REIMBURSEMENT OF FUND. (a) If the commissioner orders payment from the fund on behalf of a school district, he shall direct the comptroller of public accounts to withhold the amount paid, plus interest, from the first state money payable to the school district. The amount withheld shall be deposited to the credit of the fund.

(b) In accordance with the rules of the board, the commissioner may authorize reimbursement to the fund with interest in a manner other than that provided by this section.

Sec. 20.910. REPEATED DEFAULTS. (a) If two or more payments from the fund are made on the guaranteed bonds of a school district and the commissioner determines that the school district is acting in bad faith under the guarantee, the commissioner may request the attorney general to institute appropriate legal action to compel the school district and its officers, agents, and

employees to comply with the duties required of them by law in regard to the bonds.

(b) Jurisdiction of proceedings under this section is in district court in Travis County.

Sec. 20.911. RULES. The board may adopt rules necessary for the administration of the bond guarantee program.

SECTION 2. In accordance with the provisions of this Act, the commissioner of education may approve for guarantee any eligible bonds issued after the effective date of this Act, including refunding bonds for bonds issued or sold before the effective date of this Act.

SECTION 3. This Act takes effect on adoption of the constitutional amendment proposed by ___J.R. _____, Acts of the 68th Legislature, Regular Session, 1983. If that amendment is not adopted, this Act has no effect.

SECTION 4. The importance of this legislation and the crowded condition of the calendars in both houses create an emergency and an imperative public necessity that the constitutional rule requiring bills to be read on three several days in each house be suspended, and this rule is hereby suspended.

A JOINT RESOLUTION

proposing a constitutional amendment to authorize use of the permanent school fund to guarantee school bonds.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. That Article VII, Section 5, of the Texas Constitution be amended to read as follows:

Sec. 5. (a) The principal of all bonds and other funds, and the principal arising from the sale of the lands hereinbefore set apart to said school fund, shall be the permanent school fund, and all the interest derivable therefrom and the taxes herein authorized and levied shall be the available school fund. The available school fund shall be applied annually to the support of the public free schools. Except as provided by this section, [~~And~~] no law shall ever be enacted appropriating any part of the permanent or available school fund to any other purpose whatever; nor shall the same, or any part thereof ever be appropriated to or used for the support of any sectarian school; and the available school fund herein provided shall be distributed to the several counties according to their scholastic population and applied in such manner as may be provided by law.

(b) The legislature by law may provide for using the permanent school fund and the income from the permanent school fund to guarantee bonds issued by school districts.

(c) The legislature may appropriate part of the available school fund for administration of the permanent school fund or of a

bond guarantee program established under this section.

SECTION 2. This proposed constitutional amendment shall be submitted to the voters at an election to be held November 8, 1983. The ballot shall be printed to provide for voting for or against the proposition: "The constitutional amendment authorizing use of the permanent school fund to guarantee bonds issued by school districts."